FOREIGN AFFAIRS

SEPTEMBER / OCTOBER 2001

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Getting Debt Relief Right
M. A. THOMAS

Providing Universal Education
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SEPTEMBER/OCTOBER 2001
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Image and reputation have become essential parts of a state's strategic capital. Like branded products, branded states depend on trust and customer satisfaction. And they are the harbingers of a postmodern politics based on style as much as substance.

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Critics regularly fault the World Bank for overlooking issues such as the environment and the role of civil society as it pursues its development agenda. In fact, the bank has been adding tasks to its mandate for years, from Balkan reconstruction to education for girls in Muslim countries to the fight against AIDS. Its mission has now grown so complex that it has become unwieldy. To make the bank more effective, the countries that own it—its shareholders—must streamline its many functions and even devolve certain tasks to other institutions. The bank remains a great organization with a talented staff and a compassionate vision, but it must be prepared to move back to basics and then on to the modern era.

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Many argue that forgiving international debts will help relieve poverty in the world's poorest countries. But an enormous amount of money is already given to aid the poor, with little of it reaching those in need. Widespread corruption, weak political institutions, and a lack of accountability all hinder the provision of important social services in developing countries. The international community must figure out a way to ensure the proper use of debt-relief dollars—before the problems plaguing many of the world's poorest countries grow any worse.

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Comments

In a crowded political arena, states without a marketable brand will not survive.

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The Rise of the Brand State

The Postmodern Politics of Image and Reputation

Peter van Ham

Look at the covers of the brochures in any travel agency and you will see the various ways in which countries present themselves on the world's mental map. Singapore has a smiling, beautiful face offering us tasty appetizers on an airplane, whereas Ireland is a windy, green island full of freckled, red-haired children. But do these images depict real places, existing geographical sites one can visit? Or do the advertisements simply use cultural stereotypes to sell a product?

Over the last two decades, straightforward advertising has given way to branding—giving products and services an emotional dimension with which people can identify. In this way, Singapore and Ireland are no longer merely countries one finds in an atlas. They have become "brand states," with geographical and political settings that seem trivial compared to their emotional resonance among an increasingly global audience of consumers. A brand is best described as a customer's idea about a product; the "brand state" comprises the outside world's ideas about a particular country.

We all know that "America" and "Made in the U.S.A." stand for individual freedom and prosperity; Hermès scarves and Beaujolais Nouveau evoke the French *art de vivre*; BMWs and Mercedes-Benzes drive with German efficiency and reliability. In fact, brands and states often merge in the minds of the global consumer. For example, in many ways, Microsoft and McDonald's are among the most visible U.S. diplomats, just as Nokia is Finland's envoy to the world. In today's world of information overload, strong brands are important in attracting foreign direct investment, recruiting the best and the brightest, and wielding political influence.

These days, individuals, firms, cities, regions, countries, and continents all market themselves professionally, often through aggressive sales techniques. Indeed, having a bad reputation or none at all is a serious handicap for a state seeking to remain competitive in the international arena. The unbranded state

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has a difficult time attracting economic and political attention. Image and reputation are thus becoming essential parts of the state's strategic equity. Like branded products, branded states depend on trust and customer satisfaction. We talk about a state's personality in the same way we discuss the products we consume, describing it as "friendly" (i.e., Western-oriented) and "credible" (ally), or "aggressive" (expansionist) and "unreliable" (rogue).

This preference for style over substance is increasingly shaping Europe's political landscape, affecting even NATO and the European Union (EU). Although no doubt unsettling to conservative thinkers, this is actually a positive development, since state branding is gradually supplanting nationalism. The brand state's use of its history, geography, and ethnic motifs to construct its own distinct image is a benign campaign that lacks the deep-rooted and often antagonistic sense of national identity and uniqueness that can accompany nationalism. By marginalizing nationalist chauvinism, the brand state is contributing greatly to the further pacification of Europe.

COOL BRANDS

Branding acquires its power because the right brand can surpass the actual product as a company's central asset. Smart firms pour most of their money into improving their brands, focusing more on the values and emotions that customers attach to them than on the quality of the products themselves. Since markets are flooded with indistinguishable, mass-produced items, firms have tried to individualize their goods by associating them with an "attitude brand," pushing a particular lifestyle or a cool image rather than a plain T-shirt, soft drink, or shoe. In today's secular age, the brand has become a sort of surrogate religion. The British management consultant Peter York has even argued that Nike's "swoosh/tick logo means precisely what the crucifix meant to an earlier generation in ghettos—it promises redemption, vindication and a way out."

These days, the power of the brand is being applied to all kinds of products and services and is crossing national and cultural barriers with astonishing ease. Naomi Klein, whose best-selling book *No Logo* has become a sort of bible for the anticorporatist movement, makes this point in reference to the famous Absolut vodka advertisements, where the actual product disappeared "and its brand was nothing but a blank bottle-shaped space that could be filled with whatever content a particular audience most wanted from its brands." Artful marketers can brand even the most basic products and services, as Richard Branson's Virgin Group has done with music, cola, airlines, and even financial services. The lack of a brand name means certain death for companies aspiring to play a global role.

With all this emphasis on brands, old-style political actors worry about being left behind. Globalization and the media revolution have made each state more aware of itself, its image, its reputation, and its attitude—in short, its brand. In Belgium, for example, Prime Minister Guy Verhofstadt has hired a team of image-makers to rebuild the country's reputation after years of scandals involving government corruption, child pornography, and dioxin-polluted chickens. In an attempt to clear the air, Belgium has

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decided to introduce a new logo and hip colors and will sport the cool Internet suffix ".be" as its international symbol. The overall aim of the campaign is to emulate Virgin, which, according to one Belgian advertising expert, "isn't big, but you see it everywhere you look."

Dig a little deeper, and it becomes apparent that other European countries are joining the branding bandwagon. Tiny Estonia now not only takes exception to the label "post-Soviet state," it also dislikes being called a "Baltic" country. Toomas Hendrik Ilves, the country's foreign minister, refers to Estonia as a "pre-EU" or a "Scandinavian" country. Lacking blue-chip brands such as Finland's Nokia or Sweden's Volvo, Estonia may also try to push itself as a "green country" to attract environmentally conscious individuals and foreign direct investment. Poland's Ministry of Foreign Affairs, meanwhile, has set up a special promotional program aimed at improving the country's image, which most EU citizens still associate with devout Catholicism, backwardness, and conservatism.

In a way, these countries are following the lead of the "Cool Britannia" campaign launched by Prime Minister Tony Blair's government, itself built on the brand of "New Labour." The phrase, a pun on the patriotic hymn "Rule Britannia," is meant to emphasize the image of the United Kingdom as a global hub for the media, design, music, film, and fashion industries. The campaign was first developed by a task force of the country's artistic elite, formed to advise the government on how to make the country seem hip, enterprising, and cool. Although this group no longer has much influence, the shift from "Rule Britannia" to "Cool Britannia" should offer a lesson to the conservative (and not-so-cool) realist scholars of international politics: the change of slogans is not merely rhetorical window-dressing. On the contrary, it implies a shift in political paradigms, a move from the modern world of geopolitics and power to the postmodern world of images and influence.

Smart states are building their brands around reputations and attitudes in the same way smart companies do. Globalization and the harmonizing effects of European integration put pressure on states to develop, manage, and leverage their brand equity. Europe's emerging brand states know that most of them offer similar "products": territory, infrastructure, educated people, and an almost identical system of governance. To stand out in the crowd, assertive branding is essential. Despite the current world economic sluggishness sparked by the American economic downturn and the resulting decline in brand-building expenditures, most states still see branding as a long-term, cumulative effort that will influence foreign investment decisions and the state's market capitalization.

EUROPE'S BEAUTY PAGEANT

Creating a brand is not only economically desirable, it has considerable political and strategic implications, affecting even the dynamics of NATO and EU enlargement. Hard-nosed security analysts will argue that a state's image is irrelevant: objective economic, political, and strategic calculations determine, for example, whether a former communist state receives foreign direct investment and is offered NATO or EU membership. They claim that reducing Europe's security game to a "beauty

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pageant" oversimplifies a complicated geostrategic process. But if things were as straightforward as these analysts claim, political life would be eerily transparent and predictable. Why should we assume that the public readily buys into the seductive meanings of consumer capitalism but remains rational and objective when making political decisions?

Consider the countries of eastern Europe, many of which have massive image problems that impede their economic development and their chances of joining Europe's main political and security institutions. In his book *Inventing Eastern Europe*, the historian Larry Wolff describes how western Europeans have historically ascribed barbaric qualities to the peoples living in the East. For Voltaire and Diderot, eastern Europe was a space dominated by poverty, gloom, and backwardness. In 1945, the British historian Hugh Seton-Watson observed that the peoples of eastern Europe "have unpronounceable names and live in plains and forests, on mountains and by rivers which might be in another world." The Cold War deepened this European divide. Today, the conflicts in Chechnya and Kosovo certainly do not help make the East more reputable. For example, although Bulgarians and Albanians see themselves as living in southeastern Europe, most people in the West refer to that region as simply "the Balkans," a name that immediately evokes ethnic conflict, crime, and instability.

Indeed, opinion polls indicate that public support in the West for both NATO and EU enlargement is modest. Ordinary Americans and western Europeans are reluctant to share these luxury brands with too many others, for such dilution will diminish the prestige that comes with exclusivity. Membership in NATO or the EU symbolizes status and place in the international community.

For eastern Europe, NATO remains the main institution in the security realm, spreading democracy and stability through numerous "products": the Partnership for Peace, the Membership Action Plan, and the NATO-Russia Permanent Joint Council, for instance. In central Europe, the NATO logo has become a symbol of respectability and the ultimate marker of "Westernness"; NATO's image has been enhanced in the last ten years by its heritage, having won the Cold War and liberated the "captive nations" of the communist bloc. Similarly, NATO's military operation in Kosovo in 1999 strengthened its image as the only organization willing to go to war to defend human rights and stop ethnic cleansing. But it is important to recognize that the Kosovo campaign was no altruistic affair on the part of the West. Rather, it sought to illustrate NATO's continued relevance in managing European security. The only other alternative—doing nothing—would have damaged NATO's image beyond repair.

Whereas NATO emphasizes security, the EU radiates self-confidence and affluence. Knowing that "Europe" will never inspire affection in its citizens similar to that enjoyed by the nation-state, the EU is in the midst of a campaign to brand itself as a beacon of civilization and prosperity in an otherwise disorderly and disoriented world. The EU's striking logo—a blue flag with a circle of 12 stars—is already omnipresent. The application of "euro" to everything from trains and soccer championships to a unit of currency

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will make it one of the most frequently used names across the continent and one of the world's most popular brands.

To protect the NATO and EU brands, these organizations make the cost of membership quite high. It is so high, in fact, that to realistically vie for membership, a state must already have acquired the amenities—security and affluence—promised by NATO and the EU. This is a manifestation of Europe's so-called "mortgage paradox": just as commercial banks will not give a mortgage to financially unsound clients, NATO and the EU will not offer membership to poor or unstable applicants. Until these countries adopt the EU's elaborate catalogue of economic and political rules (the infamous *acquis communautaire*) or follow NATO guidelines on civil-military relations, membership will remain elusive. Although both organizations are officially in the business of "spreading stability," they will open their doors only to states that no longer need membership to become stable and prosperous. Indeed, NATO's official policy precludes accepting new members that are "consumers" of security; it will accept only countries able to make a significant contribution to European stability. In a similar way, the EU will invite in only countries with functioning market economies. Although few analysts dare to highlight this state of affairs, NATO and the EU can offer only the confirmation of security and affluence.

But this paradox does not diminish the importance of NATO or EU membership. In today's branded society, being able to "afford" NATO or EU membership gives the state emotional satisfaction and important public exposure. With the Soviet threat gone, security and prosperity have turned from survival tools into luxury items. NATO and the EU wear their logos proudly, telling their clientele that buying their "product" implies that one is safe and sophisticated. These branding efforts reinforce the "customer's" sense of self and offer security and a sense of belonging. It is little surprise, therefore, that the new NATO members—Poland, Hungary, and the Czech Republic—wear their membership as a badge of achievement and exclusivity. For these countries, the rationale of their alliance membership is simple: "Because I'm worth it!"

IDENTITY POLITICS

The traditional diplomacy of yesteryear is disappearing. To do their jobs well in the future, politicians will have to train themselves in brand asset management. Their tasks will include finding a brand niche for their state, engaging in competitive marketing, assuring customer satisfaction, and most of all, creating brand loyalty. Brand states will compete not only among themselves but also with superbrands such as the EU, CNN, Microsoft, and the Roman Catholic Church (boasting the oldest and most recognized logo in the world, the crucifix). In this crowded arena, states that lack relevant brand equity will not survive. The state, in short, will have become the State®.

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Toward Universal Education

Making a Promise, and Keeping It

Gene B. Sperling

At the April 2000 World Education Forum in Dakar, Senegal, 180 countries including the United States committed themselves to a simple yet profound goal: providing quality education for all the world's children by 2015. Part of the aim of the Dakar conference was to assess the steps taken since 1990, when most of the same participants had met in Jomtien, Thailand, and promised that all poor children would have access to quality primary education within a decade. So the Dakar declaration was simultaneously an admission of failure and a pledge to try again—a triumph, as Dr. Johnson once said about second marriages, of hope over experience.

The jury is still out on whether the Dakar pledge will join the Jomtien compact in the crowded graveyard of overly ambitious development goals. It is true that countries and international institutions have exhibited a great deal of energy and continued commitment on the education front. The United Nations Children's Fund (UNICEF) recently launched a Girl's Education Initiative with high-level political backing from Kofi Annan, Nelson Mandela, and Graça Machel, Mandela's wife and a prominent activist for children's rights, education, and development. World Bank President James Wolfensohn has declared that no country with a viable plan for achieving universal education should be allowed to fail for lack of resources, even though World Bank lending for education has declined over the past two years. And the U.N. Educational, Scientific, and Cultural Organization (UNESCO) has continued the Education for All (EFA) initiative renewed at Dakar with follow-up meetings at the national and global levels.

This activity has been spurred by a growing body of research showing that investment in education—particularly for girls—in the world's poorest countries produces impressive health benefits and high economic returns. Education boosts family income, and female education in particular leads to smaller, healthier families by lowering infant and maternal mortality and improving child nutrition. In Africa, a child born to an uneducated mother faces a 20 percent chance of dying before the age of five, whereas the risk for a

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child whose mother has attended at least five years of school drops to 12 percent. In Brazil, illiterate women have, on average, six children each; literate mothers average between two and three. Indeed, a 1995 study of 72 countries found that "the expansion of female secondary education may be the single best lever for achieving substantial reductions in fertility." Recent research on AIDS prevention in the urban areas of Zambia suggested that teenagers between the ages of 15 and 19 who had received at least a medium level of education had a lower incidence of the AIDS virus than did their less-educated counterparts. And schools provide an important vehicle for delivering vaccines, medicines, vitamins, and meals.

Studies suggest that every additional year of schooling can increase the wages of workers in poor nations by 10 to 20 percent. In this way, completing basic education can produce significant gains in income. But as ambitious as it seems to shoot for universal primary education, basic education should really be seen as a starting point rather than an end goal. The need to eventually provide secondary and higher education to the world's children is only heightened by recent research on globalization's impact on wages in Latin America. Studies suggest that the wage premium from globalization going to workers who have received secondary and higher education has risen dramatically relative to that for workers with only primary schooling.

No matter how well intentioned, however, current efforts will not be sufficient to fulfill even the Dakar goals. The scope of the problem is simply too large to be addressed fully by scattered, piecemeal projects. According to Oxfam, 130 million children between the ages of 6 and 11 are currently not in school, and another 150 million drop out before completing four years of basic education. And gender disparity continues to depress enrollment rates, leaving girls behind.

The only solution is a global initiative that will leverage systemic reform in developing nations. Major national reforms will carry significant political and economic costs. If the developed countries want the leaders of developing nations to bear these costs, they will have to offer substantially more aid. Mobilizing the necessary resources will require a new global compact on education, one with a compelling framework that clearly sets out the roles and responsibilities of key stakeholders. This framework must bring together the dispersed multilateral education efforts, build confidence among advanced nations that any additional resources they contribute will be used effectively, and persuade developing countries that aid will deliver concrete benefits without imposing intrusive conditions or generating more international bureaucracy.

THE GLOBAL EDUCATION CONTRACT

Ideally, development efforts should rest on a mutually beneficial social contract. Such an understanding currently underlies international cooperation on poverty reduction: poor countries understand that aid can help them reduce poverty, and rich countries and international civil society understand that the aid they give can promote international economic growth, foster certain foreign policy goals, and make the world more equitable.

If either side begins to doubt the benefits of the partnership and questions this implicit social contract, however,

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the process can grind to a halt. Several different tensions can disrupt the contract and prevent it from achieving development goals. Donors, for example, sometimes worry that their contributions are not being used for the intended purposes. This fear is commonly reflected in arguments that aid-receiving nations lack the "absorptive capacity" and efficiency to channel resources effectively, or that corruption or politics diverts aid to unintended beneficiaries. Donors are also concerned about burden-sharing—each country being reluctant to provide more aid than it considers its appropriate share. Recipients, meanwhile, sometimes fear that the conditions accompanying aid will force them to undertake unpleasant reforms and accept infringements on their sovereignty.

Donors and recipients can thus end up at odds with one another. Externally imposed performance requirements can sometimes actually help developing-country governments and nongovernmental organizations (NGOs) overcome resistance to reform among entrenched domestic interests. Still, tension over such conditions lies at the heart of many major development debates today. The more rich countries seek to improve outcomes through rigorous performance monitoring, the more poor nations fear being subjected to the stipulations of international donors. This tension can be finessed but can never be entirely alleviated.

Debt relief is one area that has seen significant success in mitigating the tensions enough to sustain the contract among rich and poor nations. The Heavily Indebted Poor Countries (HIPC) Debt Initiative—proposed by the World Bank and the International Monetary Fund (IMF) and agreed to by international governments in 1996—worked through the burden-sharing concern by laying out the exact obligations of each donor country, and it reduced fears about aid's effectiveness by requiring recipient countries to develop explicit strategies for channeling freed-up resources toward poverty reduction. On the other hand, it also mitigated fears of excessive outside intrusion by making poor countries the authors of their own strategies.

The success of the debt relief initiative can be instructive for reaching other development goals. The most likely way to achieve universal education by 2015 is through a clear framework for collective action that outlines appropriate and realistic roles and responsibilities for donor countries, recipient countries, and multilateral institutions. Such a global alliance on basic education (GABE) could raise resources for poor countries with good education plans by combining multilateral, bilateral, and NGO assistance into a pooled lending structure. Ideally, this global fund would disburse resources through a single lending and grant-making instrument. But rather than let the best be the enemy of the good, it might start by simply coordinating the existing aid instruments.

Like the HIPC example, the Dakar declaration called on recipient countries to devise plans showing how they might actually meet their stated education goals. But the EFA structure that was set up to realize the goals set at Dakar has no means for assessing these national plans, and even if it can decide that a nation has come up with a satisfactory strategy, it provides no assurance that that country will actually receive aid to help implement

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its plan. Without a global effort espousing well-defined roles and responsibilities, the Dakar initiative is likely to fail because donors will have little confidence that resources will be well spent, and recipients will have little incentive to undertake painful reforms. Reform can succeed if the political will to support it exists—Ugandan President Yoweri Museveni's promotion of education, for instance, has led to a dramatic expansion of primary-school enrollment in his country. But such willingness to undertake reform will be partly contingent on assurances that international assistance will be available to make ambitious reform plans financially viable.

BUILDING THE GLOBAL FRAMEWORK

Reviews of national education plans should be carried out by a board that represents both rich and poor nations and that definitely includes stakeholders such as the World Bank, UNESCO, and UNICEF. This review model is being used more frequently in other issue areas. The Global Alliance for Vaccines and Immunizations (GAVI), for example, has a governing board composed of four partners with renewable terms—the World Health Organization, UNICEF, the World Bank, and the Bill and Melinda Gates Foundation—and 11 rotating partners, including NGOs, technical institutes, pharmaceutical companies, and officials from both developed and developing countries. Although the structure of the new Global AIDS Trust Fund has yet to be finalized, it too is likely to have a governing board with balanced representation from U.N. agencies, the World Bank, and the developed and developing worlds. Even the Digital Opportunity Task Force of the group of seven highly industrialized countries plus Russia (G-8) has a governing board with an equal number of developed and developing nations.

To alleviate donor concerns about aid effectiveness and recipient concerns about excessive conditionality, GABE should feature an independent peer review committee that can make technical assessments of national education plans and advise the board. Including experts from both developed and developing countries, this committee would emulate the scientific peer-review methods used by the National Institutes of Health and the National Science Foundation as well as GAVI—where a technical advisory board that assesses national immunization plans has played a critical role in mediating the tension between donors and developing nations. The review process will be facilitated by the significant consensus that prevails on many basic measures to increase access to primary education, such as the importance of providing more teachers and improving teacher skills, building more schools, and including female teachers and private facilities for female students.

Even with an independent review process and a consensus on the wisdom of certain policies, however, there is likely to be some disagreement about the nature and sequence of particular reforms. This is hardly surprising, since even within the United States, educational experts do not always agree on which policies are most effective. The review committee must be careful, therefore, not to impose its own judgment about what the best approach for a particular case might be. Rather, it should ask simply whether a

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proposed plan might be supported by a hypothetical, "reasonable educational policymaker." If the answer is yes, then the committee should defer to the leadership of the developing country in question. If the answer is no, it should send the plan back for revision. Providing adequate technical assistance to education ministries in developing countries will help ensure that the review mechanism is not simply a "yes" or "no" pronouncement on external assistance, but rather a recurring process that calls on the expertise of education specialists to help improve education plans at each stage of the process.

As in the HIPC initiative, GABE will need to reach consensus on the total resources necessary to reach its goal and how they should be provided. At Dakar, UNICEF estimated that putting every child in quality primary education by 2015 would cost an additional $7 billion per year, but it has since increased the estimate to $9.1 billion. Oxfam, however, estimates that achieving universal education will cost an additional $8 billion annually. And after the amount is set, decisions must be made on how much should be put up by the outside donors and how much should come from the developing countries, which would need to reallocate domestic spending to give greater resources to education. Oxfam suggests that donors provide $5 billion of the estimated $8 billion needed, with recipients supplying the rest. Responsibility for providing the external aid must then be carefully parceled out among the various donor countries in such a way that each accepts the division—and leaves itself open to opprobrium if it fails to live up to its commitment.

ANTE UP

No standard currently exists for determining when a nation's commitment of its own resources is sufficient to justify additional international assistance. GABE will therefore need to develop some kind of education financing index that looks at educational expenditures per child in proportion to gross domestic product. This index would aim to measure how much each country should be putting into its education reform plan, thereby helping to determine if a recipient is living up to its commitment. In creating such an index, GABE could look at both developed and developing countries to see what should be viewed as an appropriate target for a national financial commitment.

Although setting such targets is important, however, countries that cannot meet the index requirements should not necessarily be cut off from assistance, so long as they are following a sound strategy and moving in the right direction. Poorly designed all-or-nothing tests could leave some of the poorest children in sub-Saharan Africa unattended until their governments dramatically shift budget priorities, something that is not likely to happen in the near future. Moreover, the financing index should be sufficiently flexible to allow for the exceptional expenditures that developing countries must sometimes undertake, to combat AIDS or natural disasters or to provide for postwar reconstruction.

In addition, GABE must address how resources are coordinated and disbursed. A unified system that pools resources and distributes loans and grants would be most effective. Although such an approach could be the most efficient way of providing

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the right amounts of financing for particular countries, however, it may encounter opposition from national foreign-aid agencies that for historical or foreign policy reasons want to be able to select the countries and programs that they assist. GABE should therefore be willing to devise a formula that allows for some donor control—requiring each donor to contribute a minimum amount to a collective pool of funding, for example, while also allowing additional bilateral contributions to countries of a donor's choosing.

Similarly, it may not be feasible to propose a completely unified lending and grant-making mechanism, but GABE could still improve on the currently uncoordinated lending systems by channeling resources through existing instruments and then tracking aid flows to ensure that they are sufficient to cover the particular needs of each national plan. Although some have suggested that the World Bank be made the financial manager of this effort because its lending instruments are already in place, GAVI has demonstrated that a global initiative does not have to be housed in any particular institution to take full advantage of the expertise of participating agencies. In GAVI, the World Bank leads the financing task force but is not considered the explicit financial manager of the structure. And although the World Bank's lending instruments and financial management expertise would be helpful to GABE, the global initiative on education should also show flexibility on matters of financial control so that the issue does not sabotage the global education effort.

Any viable global education initiative must also find ways of ensuring that every dollar of international aid actually adds up to a full dollar of spending for its intended purpose—in other words, that international aid does not simply free up recipient governments to divert their own spending to other issues. This will require a sufficiently specific and transparent budgetary process to determine "baselines" from which to judge what amount of spending would have occurred without aid. It will also require the ability to track and monitor the flow of aid once it has been disbursed.

As the Dakar goals move education development assistance from the level of individual projects to the level of systemic reforms, questions of how to classify and track specific budgetary expenditures will become more important. It is easier to monitor whether funds have been diverted, for example, when aid goes to capital projects—a new airport or a new bridge—than when it is directed at something as elusive and broad as education reform. Monitoring the performance of education initiatives will depend on clear and transparent budgeting procedures, which many developing nations have not yet adopted. Fortunately, the process of helping HIPCs has already initiated budget reform and improvements in expenditure tracking. A joint World Bank–IMF report has found that, although comprehensive budget reform will require considerable effort, temporary, short-term steps can be taken to track spending on education and other social issues. For example, Uganda has created a poverty action fund that serves this purpose, and Guyana has made significant headway in tagging portions of its budget that are used for poverty reduction.

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SPOTLIGHT ON EDUCATION

In poor nations as in rich countries, education creates a foundation for economic growth, higher standards of living, better health, and a more informed citizenry. Curiously, however, the cause of universal basic education has captured very little public attention compared to other important development issues such as debt relief and fighting AIDS. Given the synergies between education, health, and economic growth, tackling the crisis in education should be recognized as a key to unlocking other development goals.

Unlike some of the world's other important problems, moreover, limited access to education in poor nations is not a disease without a cure. Where there has been true high-level commitment to expanding education—as in Uganda, Malawi, and the Indian state of Kerala—significant progress has been achieved. Without a coordinated global effort that can channel resources and create publicly defined obligations for the major global actors, however, progress in this area is likely to be slow and sporadic. Today 130 million of the world's children are without schooling, and hundreds of millions more will be equally deprived in years to come. They all deserve better.

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Doing Good While Doing Well

The Unheralded Success of American Enterprise Funds

John P. Birkelund

International economic assistance has been an important component of U.S. foreign policy for nearly a century, from the Hoover Relief Program and the Marshall Plan after the two world wars to the creation of the U.S. Agency for International Development (USAID) in 1962. All too often, however, foreign assistance has produced mixed results, thanks largely to a lack of focus and a lack of funding. USAID is a case in point: over time, the agency's original mission of supporting economic development to counterbalance worldwide communist pressures has been extended to include humanitarian and disaster relief; environmental, educational, and governmental reform; and even the encouragement of peace in the Middle East and democracy in the former Soviet states. The resulting lack of an overall strategy and objectively measurable criteria for success, together with the evaporation of the communist threat, has subjected USAID to persistent congressional criticism and a constant battle for appropriations.

Against this often troubled backdrop, however, one extremely successful assistance program stands out: the American Enterprise Funds. Created by the George H.W. Bush administration in response to the demise of communism in central and eastern Europe, the funds are independent of USAID (except for reporting purposes) and are supervised instead by private boards of directors accountable to Congress. Their founding mission was to combine public capital and private management in organizations that would use business loans and investments to promote democracy and free enterprise in postcommunist states. Congress made the initial appropriations—$240 million for Poland and $60 million for Hungary—in late 1989, and the first funds were organized the following spring. Each was given a board comprising individuals with experience in business and government from the United States and the respective host country; the boards in turn recruited management teams and opened offices in the United States as well as in Warsaw and Budapest, respectively.

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Shortly thereafter, Congress established a fund for the Czech and Slovak Republics (politically united in the former Czechoslovakia until 1993) and for Bulgaria, and then—during the early years of the Clinton administration—for Romania, the Baltic states, Albania, Russia, Ukraine, and the other newly independent post-communist states. Ten funds now operate in the former Soviet bloc, with capital totaling $1.3 billion. (A separate fund was organized under the auspices of the Defense Department to convert weapons facilities in former Soviet republics into peaceful businesses, and a fund has been established to aid economic development in southern Africa as well.)

Management shortcomings at some funds and shaky financial conditions in some host countries have produced disappointments. On balance, however, the program's results demonstrate its effectiveness, both on its own terms and in comparison with other initiatives of USAID and of multilateral development institutions. These successes deserve greater attention than they have received.

A SOUND INVESTMENT

At the funds' inception in early 1990, Poland and Hungary were just embarking on their transitions to the free market, and their business environments were forbidding. Small and medium-sized businesses desperately needed credit and equity capital to start up and expand, but no solid sources existed: local populations had little understanding of business fundamentals, particularly in finance and marketing, and foreign investors and bankers were leery of giving money to inexperienced entrepreneurs operating in emerging economies with weak institutional structures. Meanwhile, traditional top-down, government-to-government aid programs lacked the speed, flexibility, and competence to create a private sector virtually from scratch.

Recognizing these obstacles, the Bush administration and Congress authorized the Enterprise Funds to operate much like venture-capital firms do in developed countries: by taking risks and providing equity financing, as well as debt and technical assistance, to inexperienced managers and promising but unproven ventures. Early fund leaders hoped to establish solid track records that would inspire emulation and attract private capital to supplement and eventually replace the original government budgets. The funds were designed to have a limited life span that would end once their missions were accomplished.

Another, less explicit goal was to encourage the development of a viable institutional infrastructure for private enterprise in each country—including a disciplined banking system with credit experience, a transparent and self-governing securities market, brokerage firms, credit companies, and a mortgage loan system. The funds became instrumental in developing a framework for proper corporate governance, which would in turn facilitate privatization and encourage foreign investment.

To tackle the immense challenges involved, the boards of the funds were stocked with remarkably talented, experienced, and committed personnel. The Polish Fund, for example, managed to attract Robert Faris, a highly regarded former president of a leading U.S. venture-capital firm, as its chief executive, and its American board members included former

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American Enterprise Funds: *The Ups and Downs*
as of September 30, 2000

Country	*Initial grant date*	*Current grant amount (millions)*	*Cash drawdown (millions)*	*Net worth (millions)*	*Net worth as a percentage of drawdown*
Poland	**4/90**	**$262**	**$255**	**$295**	**116**
Hungary	**4/90**	**72**	**61**	**33**	**54**
Slovakia	**4/91**	**65**	**46**	**9**	**20**
Bulgaria	**1/92**	**57**	**57**	**42**	**74**
Baltics*	**9/94**	**50**	**46**	**34**	**74**
Romania	**9/94**	**56**	**54**	**38**	**70**
Albania	**4/95**	**30**	**20**	**17**	**85**
Total		**$592**	**$539**	**$468**	**87**
Russia	**9/93**	**$440**	**$222**	**$118**	**53**
Central Asia*	**9/94**	**150**	**106**	**38**	**36**
Western NIS*	**9/94**	**150**	**90**	**38**	**42**
Total		**$740**	**$418**	**$194**	**46†**

* The Baltics include Latvia, Lithuania, and Estonia. The Western NIS (Newly Independent States) comprises Ukraine, Moldova, and Belarus. Central Asia comprises Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
† This figure would be higher if funds spent for technical assistance were not included in the "drawdown" column.

Source: Author's compilations.

National Security Adviser Zbigniew Brzezinski, labor leader Lane Kirkland, General Motors chief John Smith, and future ambassador to Poland Nicholas Rey. Over the years their Polish counterparts have included a future prime minister, a foreign minister, and a labor minister, as well as several prominent representatives from business and academia. The board of the Hungarian Fund, meanwhile, was chaired first by John Whitehead, former co-chairman of Goldman Sachs and deputy secretary of state, and then by George Gould, former undersecretary of the Treasury; its Hungarian members have gone on to serve as foreign minister, finance minister, and chairman of the National Bank of Hungary.

Although the private boards were supposed to directly oversee the funds' managers, not all the funds have eluded government and bureaucratic meddling. Despite such distractions, however, the management teams have been able to achieve a string of successes. Taken together, the funds have created or supported thousands of small and medium-sized businesses employing a total of 150,000 people, created or financed 24 free-standing financial institutions with more than 100 branches, made more than 50,000 small-business loans with a default rate averaging less than 4 percent, and leveraged their government grants by more than 100 percent.

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Through September 2000, Washington had disbursed a total of $957 million to the ten funds in the postcommunist states. (Although the funds had applied more than $1 billion to investments, loans, and related technical assistance, they still had cash balances of $93 million, thanks to recycled loans and profits.) Private institutional investors have put an additional $500 million into the funds, supplementing those original government grants. A number of Enterprise Fund portfolio investments, meanwhile, have been sold to U.S. and European corporate investors for a total of more than $600 million, and joint investments with U.S. and European corporations have brought well over $200 million into the region. Thus the Enterprise Funds have stimulated more than $1.3 billion in private-sector investment, not including the ongoing lending activities of the local institutions they have established.

The funds' mandate encompassed the unprecedented dual objectives of enhancing economic development in their host countries while seeking to preserve their capital. Although the funds have not yet achieved the latter goal, their aggregate net asset value as of last September came to $662 million—70 percent of the amount originally invested. Even more important than the impressive financial performance achieved under difficult circumstances, however, has been the establishment of experienced investment or loan organizations in the host countries, with offices now staffed largely by locally trained personnel. These institutions have become centers of expanding entrepreneurial encouragement and training. Finally, the host countries' governments and citizens have given these efforts near-universal respect and appreciation.

THE FUNDS

Each fund has been confronted with unique economic, social, and political circumstances in its host country, and the degree of a fund's success has depended in large part on how well it has adapted to these local conditions and needs. The funds operating in the more developed central European region have preserved some 87 percent of their original capital, well above the 70 percent average, largely due to the overwhelming success of the Polish Fund. Yet even in the states of the former Soviet Union, where the political and economic problems have been particularly severe, after six years the regional funds have preserved about half of their original capital, as the table on the preceding page shows.

The Polish-American Enterprise Fund has produced the most dramatic results thus far. When it is fully liquidated next year, its original $240 million grant will have grown to about $320 million. Of that latter amount, $120 million is being returned to the U.S. Treasury, with the balance going to a new Polish philanthropic foundation—an unprecedented outcome in the history of U.S. foreign assistance. (The closest historical example is Finland's repayment of its post–World War II loans.)

The Polish fund has also set other precedents. In 1992 it created the first small-business loan program in eastern Europe, which extended loans totaling $275 million to some 70 businesses. To carry on this program, the fund acquired and reorganized a small commercial bank that has now been sold to Fortis Bank.

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The fund also created First Polish-American Mortgage Bank, which was the first institution of its kind in postwar Poland and was recently sold to GE Capital. And it started the Mikro Fund, which specializes in micro-loans of less than $7,500 to finance tiny businesses and cottage industries, and which has extended $71 million in 41,000 loans with a default rate of less than 3 percent. The Polish fund has also provided a wide range of commercial and financial advice to U.S. investors, Polish businesses, and the Polish government. Finally, the fund has raised from U.S. and foreign institutional investors $450 million, which its Warsaw office now manages.

The Hungarian-American Enterprise Fund, which began with a much smaller grant, has also made significant contributions to its host country. It was impaired by management troubles in its early years, but following a management change in 1994, the fund has demonstrated an ability to identify and develop profitable enterprises, has initiated a small-business loan program, and has actively supported the local banking system. Using these successful activities to attract capital, the management has organized a $50 million private investment fund and, more recently, launched a small venture-capital fund focused on high-technology businesses; a second private fund capitalized at €100 million is planned for Hungary next year.

The Bulgarian-American Enterprise Fund, with $57 million in funding, encountered major political and macroeconomic problems in its first six years, which made serious investing in private companies a nearly impossible task. Now operating under a more responsible government in Sofia, and with a strong board and management that have refocused the investment strategy, the fund is gradually resolving its problems and has shown profits for the last two years. It was the first organization to lend and provide equity capital to small enterprises in Bulgaria and has been instrumental in reforming the country's pension system.

One lesson learned from the smaller funds is that a minimum capital base of $100 million helps assure viability. (Operating costs alone generally run at least $2 million to $3 million annually). But the success of the Baltic fund—one of the smaller funds—demonstrates what can be accomplished even with meager resources. With just $50 million, the fund has had to operate in four different languages (English plus the three national tongues) and three national economies undergoing reforms at different paces. Chaired by former Assistant Secretary of State Rozanne Ridgway, the fund at first focused exclusively on loans to small companies, emphasizing the importance of sound business plans and offering business education. In 1996 it introduced a residential mortgage program that has since attracted the interest of U.S. and European investors, and it has also begun making a variety of other real estate investments. After its first profitable year in 2000, the Baltic fund is now raising a $40 million mezzanine investment fund—which will provide the next stage of financing after initial venture-capital investment—in cooperation with the International Finance Corporation and private investors.

Unfortunately, an ineffective board and severe management problems prevented the Czech and Slovak fund from similarly overcoming its low initial funding, and

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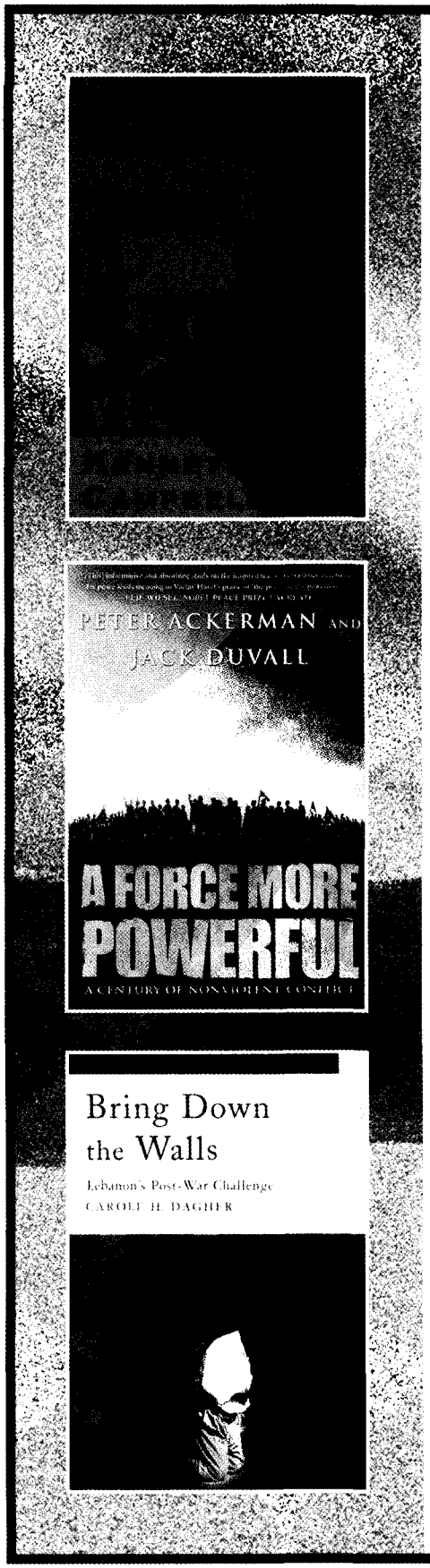

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its assets have declined from $65 million to $28 million over its first nine years. The fund has, however, attempted to correct itself in recent years: with a new team of directors and managers installed in 1997, the financial situation has been stabilized and the fund now focuses solely on Slovakia, where it continues with a loan and equity-investment program.

The Romanian and Albanian funds have both had to deal with political instability and corruption, and in the case of the Albanian fund a total economic collapse as well. Dissension on the board of the Romanian fund further impaired its initial performance. Even so, both funds have managed to carry on with their missions, despite insufficient funding to capitalize on the investment opportunities in their respective countries. The Albanian fund has minimized its overhead costs largely by subcontracting its small-loan program to local institutions and nongovernmental organizations. The Romanian fund, now with an effective board and disciplined management, has maintained its viability by collaborating in the organization of a $65 million private investment fund for which it serves as an adviser.

The U.S. Russia Investment Fund was plagued with internal and external difficulties in its first few years. It lost half of its paid-in capital early on—a loss aggravated by the 1998 Russian economic meltdown and profound board and management problems. But after reconstitution of the board and three management changes, the fund has found its way. Now run by a highly regarded chairman and a Moscow-based chief executive, and with substantial funding remaining from its original $440 million, together with the prospect of $100 million to $150 million in parallel private funding, the fund has a more promising outlook. Its recently reorganized small-loan program has disbursed more than $30 million with a 98 percent repayment rate. The fund is now developing a mortgage banking business and a leasing company while focusing its direct equity investments on telecommunications, media, technology, financial services, and consumer-goods distribution companies.

HOW TO SUCCEED IN BUSINESS

The Enterprise Funds have made their greatest impact through small-business lending and micro-lending programs. Each has started initiatives to reach the grassroots level of the emergent business community in its host country. The primary beneficiaries of these programs are small entrepreneurs, whose businesses include hotels, auto repair and finance, dentistry and health clinics, bookstores, laundries, farms and dairies, construction companies, and light manufacturing firms. Enterprise Fund capital has given these entrepreneurs hope and opportunities to expand their businesses, providing employment, serving as an example for others to emulate, and broadening a stake-holding middle class that is essential to a viable democracy.

When implemented in conjunction with local banks, moreover, the funds' small-business and micro-loan programs have positively influenced the credit and operational systems of participating banks and forced those not participating to improve their own operations in order to remain competitive. Many of the beneficiaries of these small-business loan programs had never borrowed money before, yet loan losses have been extremely

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low, bearing witness to the programs' tight management and high standards.

The success of the Enterprise Fund experiments has rested chiefly on three factors: the composition of fund boards and their selection of management, the provision of sufficient capital to take advantage of local investment opportunities and cover operating costs, and management's concentration on developing individual businesses rather than giving general advice or producing consulting studies.

The funds' task has been difficult in many jurisdictions due to corruption and the absence of the rule of law, property rights, physical security, or acceptable business standards. But carefully conceived investment strategies can mitigate some of the negative effects of local environments.

Nothing can compensate, in contrast, for deficiencies in the quality of fund management; boards must exercise vigilant oversight and correct problems promptly, just as they would in the private sector. Despite its virtues, therefore, the Enterprise Fund concept is successful only when care is taken in selecting both board members and management. When selection has been driven by political considerations rather than merit, the result has been disaster. Boards must be able to draw on extensive business and investment experience, knowledge of small-enterprise lending, a keen appreciation of the host country's culture and business environment, and plain common sense. In addition to private auditors and the General Accounting Office, moreover, the office within the State Department that supervises the Enterprise Fund program must be able and willing to act as the ultimate shareholder of the enterprise, identifying and dealing swiftly with those cases in which a board fails to discharge its primary responsibilities.

The Enterprise Fund model has had its share of problems and is not a panacea for all the woes of developing economies and fledgling democracies. Nevertheless, it has proved itself a unique and promising way to develop indigenous private-sector growth, and its efficient and flexible business-to-business approach should be expanded and emulated elsewhere in the developing world. Free markets and democracies are built not from above but from below—on the foundation of a vibrant middle class that has a stake in the future of its economy and its country. Run well, Enterprise Funds and similar privately managed government programs can help nurture that middle class—which is far more than can be said for most of the alternatives.

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Essays

AP/WIDE WORLD PHOTOS

George W. Bush with Vladimir Putin, Ljubljana, Slovenia, June 16, 2001

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The World Bank's Mission Creep

Jessica Einhorn

LESS IS MORE

THE WORLD BANK and the global community have learned a lot about development in the past 50 years. The bank is justly proud of its commitment to being a knowledge-based institution and has consistently responded to development setbacks with thoughtful analysis followed by new areas of lending. At the same time, critics have repeatedly faulted the bank for overlooking certain issues and constituencies, from environmental concerns in the 1980s to civil society in the 1990s. Along the way, the bank has added new tasks to its mandate. In recent years, it has been called on for emergency lending in the wake of the Asian financial crisis, for economic management as part of Middle East peacekeeping efforts, for postwar Balkan reconstruction, and for loans to combat the AIDS tragedy in Africa.

By now, its mission has become so complex that it strains credulity to portray the bank as a manageable organization. The bank takes on challenges that lie far beyond any institution's operational capabilities. The calls for greater focus through reform seem to produce little beyond conferences and consternation, since every program has a dedicated constituency resisting change. To counter these problems, the countries that own the bank—its shareholders—need to elaborate a worthwhile and suitably modest agenda. The views of emerging-market countries, which have shared in the bank's successes as well as its failures, should count a great deal; they are the ones who have lived the lessons of the

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JESSICA EINHORN is former Managing Director of the World Bank and is now a consultant at Clark & Weinstock.

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past decades. Policymakers should consider a broad array of options, including devolving some of the bank's functions to new institutions or redistributing them to existing ones. But whatever the remedy, it is time to redefine the bank's unwieldy mission.

HISTORY LESSONS

THE WORLD BANK, along with the International Monetary Fund (IMF), was established at Bretton Woods as part of the post–World War II international financial architecture. This system was meant to avoid future world wars by ensuring an open international trading system and global financial stability. At the founding conference, the economist John Maynard Keynes called for an institution that would focus first on postwar reconstruction and then on development in poor countries. The bank was thus established, beginning the great postwar experiment of using public loans for economic development.

Fundamentally committed to open trade, the bank initially emphasized loans to build public infrastructure—railways, roads, ports, power plants, and communication facilities. It believed such projects, accompanied by financial stability and private investment, could do the most to trigger development. The bank then learned lessons along the way. Latin America showed the deleterious effects of inflation and macroeconomic instability. South Asia demonstrated how the state could distort markets through price and regulatory controls, producing scarcity and skewed prices. Africa taught the importance of education, training, and human-resource development for economic progress. Thus the bank came to understand the importance of policy. And money became the vehicle for policy advice, displacing the old notion that foreign capital alone would spur greater productive investment and, over time, development.

Economic theory kept pace with experience. Traditionally, economists emphasized GDP growth as the motor of development and focused on the key role of capital. But over time, some began to embrace a broader conception of the inputs necessary for development, such as labor requirements, social structures, and entrepreneurship. Economists observed a correlation between economic growth on one hand and literacy and low population growth on the other,

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and eventually they accepted these and other social goals as essential inputs to development. As for outputs, development came to encompass not just growth but equitable income distribution and environmental sustainability.

By describing social goals as inputs rather than results, the bank cleared the path for a cumulative piling on of tasks over the decades, including issues of governance, participation by the poor, and anticorruption. This approach also let the bank pursue an increasingly democratic and humanistic agenda without appearing to be politically intrusive. Rather than acknowledging the political dimension of female education in Muslim countries, for example, the bank argued that Pakistan would reap "the highest economic returns" from educating its girls. (Many critics charged that this "narrow" economic rationale was insensitive. But the bank was probably more effective this way than when it tries to justify policy as a matter of shared values.)

From the 1970s to the 1990s, the bank's research continued to expand the development agenda. In a famous speech in Nairobi in 1973, the bank's president at the time, Robert McNamara, called for a new, more challenging, and complex approach to rural development for the globe's poorest people. In a stirring conclusion, he asked all parties to seek to eradicate poverty by the end of the twentieth century, eliminating malnutrition and illiteracy, and raising life expectancy across the developing world. His speech forcefully initiated a tradition of identifying global problems, setting bold objectives, and then attempting to tackle them no matter how complicated the undertaking.

Yet McNamara's vision proved illusory. It is a sad irony that the great post-Nairobi failures came to be identified with the rural sector that figured so prominently in his speech. In Tanzania, President Julius Nyerere's failed rural policies proceeded with bank support as he aimed to resettle peasants in more compact communities. By the early 1980s, the bank itself took note of the exceptionally problematic record of rural development projects, particularly in sub-Saharan Africa. The failures led to further studies and more ambitious conclusions: the need for strong institutions of government, the centrality of human resources, and the necessity of more participation by the poor in designing projects. The bank had learned how an integrated antipoverty program could tax capabilities beyond capacities.

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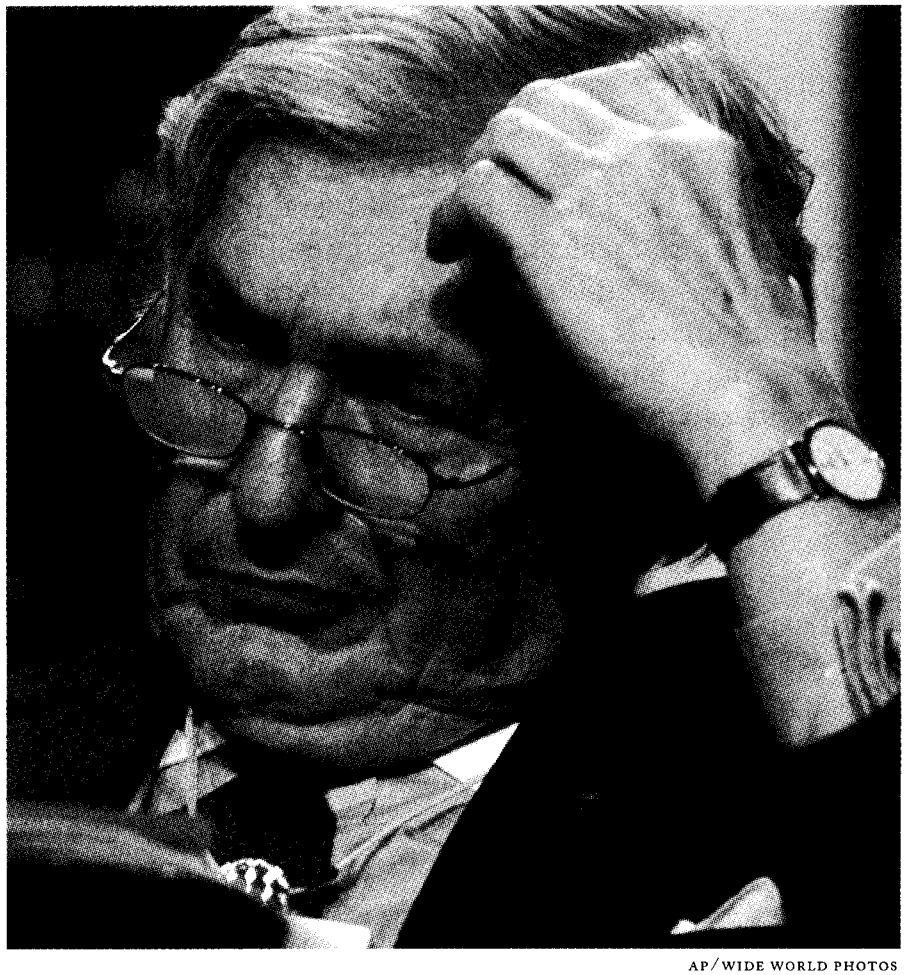

AP/WIDE WORLD PHOTOS

A man for all missions? World Bank President James Wolfensohn, Davos, Switzerland, January 28, 2001

Whereas Africa required an expansion of the bank's mission within the poorest countries, Latin America posed a different challenge in the 1980s. In the turbulent global economy of the 1970s, the oil-price hikes had created huge new requirements for global financing. Banks with major new deposits based on oil wealth had engaged in large-scale lending to developing countries, particularly in Latin America. As those countries' economic management faltered and debt grew, however, this trend became unsustainable. In 1982, Mexico shocked the world with the news that it could not meet the repayment obligations on its debts. Many parties became tangled in the prolonged resolution of the debt crisis, which spread to other middle-income Latin American countries.

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For the bank, this travail set the stage for "structural adjustment" lending, in which loans were proffered in exchange for government commitments to economic reform. This set of commitments came to be known as the "Washington consensus," and it included trade liberalization, tax reform, realistic exchange rates, liberalization of capital markets, and privatization. Although the term has been caricatured and misrepresented as a symbol for heartless World Bank policies, the reality was much more positive. A bank study of 1980s adjustment programs in 42 countries found substantial success—with steadier growth rates, lower inflation, and improvements in current accounts and trade regimes. And although times were hard for many countries, both the bank and the receiving countries increasingly agreed on the need for reform and the realization that money is only as beneficial as the policies it supports. The bank also learned the importance of taking explicit account of the poor in economic reform discussions. The harsh criticisms of the impoverishing effects of early structural adjustment loans brought forth new commitments to mitigate adjustment's social costs through better design of programs, especially for governmental social spending.

A NOT-SO-SIMPLE PLAN

BY THE EARLY 1990S, the bank was ready to embrace the post–Cold War optimism on development and the global economy. The great strides in Asia and the collapse of communist regimes in the Soviet bloc opened a vista of successful economic development based on free markets and burgeoning international trade. Although poverty in Africa and South Asia stood as a sober reminder of the limits of financing development, Latin America had made great progress. East Asia was coming to be known as a "miracle" for its high and relatively equitable growth, China was moving steadily toward market-oriented reform, and the former Soviet bloc became free to embrace the Western economic model. The bank (and the IMF) geared up for the challenge of working with transition economies emerging from communism.

In short, hope was in the air. In its 1990 *World Development Report,* the bank promoted a two-pronged strategy to combat poverty through

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better market incentives, social and political institutions, infrastructure, and technology. At the same time, it called on developing-country governments to build human capital through social services such as primary health care and education. The 1991 report went further to argue for reevaluating the respective roles of the market and the state in development. Its prescriptions included more open markets and public-sector privatization accompanied by greater government activism in areas such as health, education, infrastructure, and assuring stable macroeconomic growth. Finally, the 1992 report asked how policy could promote sustainability, especially in environmental issues affecting the poor, such as safe water, safe air, and usable land. This last issue was especially prominent on the bank's agenda as the global community prepared for the Rio de Janeiro world environmental conference in 1992.

By now, the bank's agenda had grown hugely complex. There was a growing appreciation that policy depended on institutions for implementation—but no one had figured out how to build those institutions successfully in inhospitable political and social climates. Thus much of Africa continued to languish, and poverty in South Asia remained widespread. Moreover, just as the bank's confidence reached its zenith, the howls of critics started to reverberate in the corridors of elected officials. These critics charged that the bank's concern for the environment was half-hearted and belated, that its emphasis on markets and stable macroeconomic policies impoverished the poor, that its willingness to deal with almost any government was wholly insensitive to human rights and other democratic values, and that the closed nature of its deliberations and restricted circulation of its reports were nontransparent and precluded the poor's participation.

Of course, the bank had answers for these charges. But the governments of its largest shareholders increasingly responded to the critics with calls for reform. With the appointment of James Wolfensohn as president in 1995, the bank found a leader committed to changing the human face of the bank by embracing sustainable development and reaching out to civil society and the poor. Debt relief was promised to the poorest countries, and the bank's aspiration was movingly articulated as "a dream of a world free of poverty."

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But reality reared its ugly head. The challenges in Russia and eastern Europe turned out to be daunting, and the correct sequencing of reforms was by no means easy to divine. Africa fell into the harshest of times as weak states lost their Cold War patrons and were rocked by war and disease, especially AIDS. The bank was also trying to adapt to the huge private-capital flows into "successful" emerging markets, funds that were overshadowing development assistance and marginalizing the bank's role in all but the poorest countries. Finally, there came the cruel blow of the 1997 Asian financial crisis—a watershed for the bank. The star actors in the development drama had fallen off the stage. Net private capital inflows to developing countries plummeted by more than half in 1996–98. Even more important, commercial bank lending proved the most volatile, moving from a net inflow of $118 billion in 1996 to an outflow of $45 billion in 1998. But the cold numbers do not begin to describe the earthquake that rocked the foundations of international finance—including central banks, the IMF, the World Bank, and the Asian Development Bank. Billions of public dollars were loaned against the backdrop of crisis, as the development community scrambled to understand what had occurred.

As the bank began the new century with ever-grander visions, the criticism only increased.

Once again, a global financial crisis led to review and revision of the objectives of the Bretton Woods institutions. The IMF, finance ministers, and central bankers tried to use their fresh understanding of the risks of liberalized capital markets to build a new international financial architecture. Meanwhile, the development community concluded that its approach had been too narrowly focused on macroeconomic policy and human resources. It called for an agenda that stressed anticorruption, effective corporate governance, banking transparency and independence, strong capital markets, and sufficient social safety nets.

Aside from addressing the big crises, the bank has persisted with its other special post–Cold War tasks, including reconstruction in the Balkans, economic management in the Middle East, and environmental challenges such as biodiversity and global warming. And the bank has

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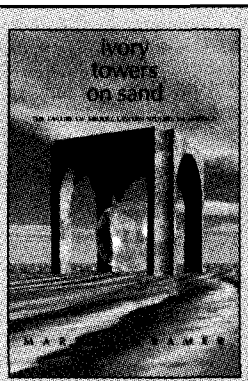

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labored to demonstrate the compatibility of its traditional staunch commitment to open trade and competitive markets with the goals of equitable and sustainable growth. But as it begins this century with ever-grander visions—abolishing poverty, embracing global civil society, giving voice to the poor, and pursuing sustainable growth—the harsh criticism is only increasing. From those who share the bank's core beliefs, there are calls for focus and results. From those who have always opposed the emphasis on trade and markets, there is increased stridency in the streets and at the meetings.

That said, the bank is not the only institution that broadened its scope and raised its ambitions for development. In the 1990s, the United Nations convened a series of conferences on major areas of human development. Each conference produced a manifesto of global ideals for humanity, which the development institutions were then expected to incorporate in their programs. The U.N. Millennium Declaration captured these goals in one document last year. Keeping with the times, the bank has also embraced this rhetoric as performance benchmarks. For example, in its 1998 annual report the bank underscored its commitment to U.N. development targets. These goals included halving by 2015 the proportion of people living in absolute poverty, achieving universal primary education in all countries by the same year, and establishing gender equality in primary and secondary education by 2005. The report expressed similarly ambitious goals for reducing infant and child mortality, ensuring universal access to reproductive health services, and reversing the loss of environmental resources.

The U.N. is supported by the most idealistic members of civil society and thus can claim to voice the aspirations of humanity. But other organizations have abetted the process. In June 2000, the Organization for Economic Cooperation and Development presented a report that called for progress in achieving the U.N. goals related to poverty reduction. The OECD report was coauthored with the U.N., the World Bank, and the IMF—a first for such cooperation—and hailed as a scorecard for progress in achieving the targets of such world conferences.

Meanwhile, the Bretton Woods institutions have been called on to work with developing countries to implement codes of "best practices" in a variety of technical areas such as banking regulation and supervision,

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corporate governance, and accounting. The codes themselves make a lot of sense. Indeed, codifying or even just recording and disseminating best practice is the hallmark of thoughtful progress. But the question remains as to how realistic the expectations for widespread adoption are. The rhetoric of international development is deeply attached to the notion that any problem can be solved with a detailed blueprint, goodwill, and sufficient effort.

GREAT EXPECTATIONS

WHAT EXPLAINS this extravagant optimism in the face of harsh experience and dire reality? The bank embraces an unachievable vision instead of an operational mission because it is under pressure from many different constituencies. More important, this vision drowns out a discussion of realistic objectives and thus undercuts a much-needed drive to enhance internal management. It also weakens the bank's perceived "professional impartiality" as an adviser and partner to developing-country governments. And because of the politics within the institution—where developing countries are both shareholders and clients—the bank will rarely admit that working within a particular country at a particular time is unlikely to achieve much lasting benefit unless a more reform-minded government takes over. Yet to address all these issues, the bank must acknowledge a series of dilemmas.

First, the bank absorbs and expounds the huge prescriptive literature on development without acknowledging that knowing the destination does not produce a road map for getting there. For decades, the bank has underscored the importance of strong institutions to successful development—without admitting that there is no magic wand that can give places such as Pakistan, Russia, or the countries of Africa that institutional infrastructure.

Second, the bank does not acknowledge that much is serendipitous about development. Different countries have developed at different times through a happy coincidence of myriad factors, including geography, immigration, political development, and the outcomes of war and peace. The Asian crisis showed that globalization has raised the bar for locking in development progress. But the idea that good

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corporate governance and transparent and stable financial systems are essential for development contradicts the postwar progress of western Europe. In Germany, banks and insurers have traditionally owned shares in each other and in industry, and unions have been powerful actors in a system of corporate governance that stresses consensus. Government-industry ties are equally thick in France and Italy, where corruption has also featured prominently. Yet no one would argue that these countries are "unstable" in their claim to be developed. But to say development is serendipitous is not to counsel pessimism. The revolution in technology and communication, for example, may over time permit great strides in Africa.

Third, the bank is in danger of overdetermining development to the point where it is a tautology, not a reasonable prescription. To argue that developing countries need market-friendly policies, stable macroeconomic environments, strong investments in human capital, an independent judiciary, open and transparent capital markets, and equity-based corporate structures with attention to modern shareholder values is to say that you will be developed when you are developed. It is the old debate of inputs versus outputs, where everything that development brings has become a necessary input to achieving it.

Fourth, the bank's strength paradoxically undercuts its effectiveness. The bank is so diverse in its expertise, so professional in its staffing, and so strong in its financial structure that all the interested parties want to control it for their own purposes.

This last point leads to the fifth dilemma: the politics of support can often conflict with the politics of influence. As the bank tries to broaden its support and avoid controversy in developed countries, it refrains from politically charged lending (such as that for large infrastructure projects or sustainable forestry). At the same time, it intrudes into political processes (such as by mandating consultation with nongovernmental organizations) as part of the loan process. The checklist for getting credit may now require assessing the loan's impact on poverty, gender disparities, and the environment; it may also call for competitive procurement and enhanced financial management. These requirements raise the cost of doing business with the bank to discouraging levels. The need for realistic management is acute.

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THE VISION THING

THE BANK continually straddles several basic public purposes, which correspond to its separate constituencies. It has always been a key institution in the international economic architecture, helping to expand the liberal global economy. The bank has relentlessly pushed developing countries in the direction of the "World Trade Organization (WTO) system" of growth. In financial crises such as those in Mexico or Asia, the bank has been part of the attempt to prevent widespread financial panic. And it has been a key partner in helping transition countries join the international economy.

The bank is also the leading institution for alleviating poverty. It focuses on individuals, their crushing needs, and their soaring potential. In each country, the bank is expected to help the poorest citizens; it is for them that the bank pursues structural reform, trade liberalization, and the opening to the private sector. Many NGOs, much of the development community, religious groups, and parliamentarians associate themselves with the bank through this bridge, which has certainly been the hallmark of Wolfensohn's tenure.

Finally, the bank's role is growing in matters such as biodiversity, ozone depletion, narcotics, crime, and corruption. Postconflict reconstruction (in the Balkans and the West Bank, for example) and conflict prevention are also issues of the moment. The new century demands a new agenda for global cooperation that requires money, and this agenda can be adapted to the bank's operating style of making loans based on policy dialogue. Like Bretton Woods objectives, these issues are rooted in a global concern. Unlike such objectives, however, they are often less focused on the global economy and subsumed instead under "development" to fall within the bank's operating charter.

The bank has stressed vision, compassion, and charisma under Wolfensohn's leadership. At the same time, it has tried to pursue reform through greater transparency, broadened participation in project formulation, and increased links to civil society. The bank has also been open to the emerging agenda of global common issues. Words like "comprehensive" and "holistic" have come into common use as the bank struggles to encompass all agendas.

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Like many institutions, however, the bank goes through phases. It is now clearly due for a "managerial" cycle to follow its visionary one. Bank officials must admit there is a problem and move with shareholders toward broad-minded reform. Although the bank has changed dramatically with the times, its mandate has expanded continuously toward more complexity, against ever more grandiose ambitions. Now the bank needs to focus on its internal management not begrudgingly but willingly, with candor born of self-knowledge. It must grasp the opportunity to revamp itself in fundamental ways.

There is no shortage of blueprints for reform among knowledgeable staff, shareholder governments, and special commissions. Different plans might envision breaking up the bank, scaling back its activities, or distributing some of its programs to other existing institutions with overlapping missions. But whatever the plan, it must recognize that the substance of reform is condemned to fail until the bank argues for modernizing and rationalizing today's proliferated development architecture. For example, there is no compelling reason why the bank should consider judicial reform as a development task under its umbrella rather than passing the job to an organization staffed by lawyers and judges. Of course, law is related to economics, and contracts and a functioning judiciary are fundamental to markets. But that relationship does not have to dictate organizational sprawl. Similarly, the bank's great vision and (much maligned) adoption of cultural heritage as a development objective would stand to gain if such an objective could be farmed out to an organization with more corresponding interests.

The bank is due for a "managerial" cycle to follow its visionary one.

There is no single correct approach for reforming an international institution after 50 years of great achievement as well as severe disappointment. What the bank's shareholders can do is exchange ideas on guiding principles to achieve a new consensus. The developing world can contribute much to this dialogue, and those who have succeeded in transforming their countries in the past decades should be given a leading voice in any convocation. The following list of principles should set the process in motion.

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First, the task of reforming the bank should be seen as intergovernmental. Civil society is present in every way through the democratic process, but it does not represent governments, which are the shareholders and clients of the bank. Shareholders should stop fleeing from that concept and instead exploit the opportunity to work together as state authorities. The global community needs accountable governments to establish realistic objectives for operating public organizations. A U.N.-style conference is not the venue for such a "management" agenda.

Second, national finance ministers (advised by development and environmental ministers) should lead delegations in considering reform and reorganization of the bank. Putting finance ministers in the lead will strengthen the hand of those policymakers who see the bank as a valuable central player in expanding the global economy, and they can simplify the bank's role as a partner with the IMF and the WTO in expanding global prosperity.

Third, the bank should raise its profile of core competencies. It has traditionally viewed the world through an economic lens, as it did when it proved that education and health care are essential building blocks for development. The bank should continue to contribute through economic research and position itself as the lead candidate to undertake any major economic tasks. Lending to implement a governmental agenda for economic reform will remain a comparative advantage of the bank.

Fourth, the bank should consider scale and distance. Although it is worthwhile to highlight the benefits of microcredit lending, for example, it does not make sense for an organization headquartered in Washington and staffed by international professionals to play an operating role in such local ventures. The bank's location, recruitment, and charter argue in favor of a wholesale, not retail, approach to development. Smaller organizations in the field are more appropriate for hands-on tasks.

Fifth, any discussion of development must acknowledge that private capital flows have decisively outpaced public assistance. The bank has traditionally lent to governments to create a "market-friendly" environment that will encourage the flow of private capital and the growth of savings on a constant basis. But it now increasingly finds itself marginalized in its capacity to finance development, except in

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the poorest countries. Last year, private net inflows to emerging markets exceeded net official outflows by close to $170 billion. The bank welcomes these private flows and is committed to expanding their scope. It can help by simplifying its program to take account of these flows and make sure that its funds complement them. In the poorest countries, not only are private flows unavailable, the bank's terms of lending are inappropriate. In emerging markets, the bank has the ability to focus its involvement with governments to advance the agenda of reform and attract and enhance the benefits of foreign investment.

Sixth, as the bank narrows its focus, it should shift it as well. It should open the door to the new agenda of global common goods and still commands the human and financial resources to make the greatest of strides in this area. This is why the bank should shed areas where its comparative advantage is no longer compelling. Without the bank, for example, the importance of education to development would have been overlooked. But today there is reason to consider moving the best of the bank staff in this area to a more focused enterprise.

In sum, governments should first survey the broad agenda that has become subsumed under the rubric of development and the emerging agenda of global concerns. They should then adopt a "Bretton Woods" frame of mind suitable to the new century and establish organizations that can achieve today's goals and align themselves with today's challenges. The World Bank is a great institution staffed by highly educated and motivated public servants, led by a committed president with compassion for helping the poor. But the proliferation of knowledge in the last 60 years has led to a complexity of tasks that defies operational definition—and the new problems that have arisen require mature organizational attention and leadership. As the bank moves into its next stage of leadership in the coming years, its shareholders should be prepared to move both back to basics and into the modern era.

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Getting Debt Relief Right

M. A. Thomas

BLESSED ARE THE POOR?

TODAY 41 of the world's poorest countries are bankrupt. These nations, identified by the World Bank as "heavily indebted poor countries" (HIPCs), owe some $170 billion to foreign creditors, while half of their 600 million citizens get by on less than $1 a day. Nine out of ten HIPCs cannot sustain their debts, given their low export earnings and GNPs. Unless some of this debt is forgiven, they will be paying in perpetuity. Their creditors, on the other hand, include the wealthiest countries in the world, as well as the international financial institutions that are meant to support economic development.

In the spirit of the Jubilee (a semicentennial forgiveness of debts described in the Old Testament), a diverse and powerful coalition of political and religious leaders, Nobel Peace Prize winners, economists, rock stars, and rioting activists has rallied for a complete debt write-off. Arguing that high interest payments "crowd out" government spending on the poor, these advocates claim that forgiving national debts will help relieve the world's worst poverty. Using powerful emotional rhetoric, they offer heart-wrenching descriptions of the millions of people lacking security, adequate food, clean water, and basic health care and education. But as moving as this testimony may be, the reality is that the windfall of the current HIPC Initiative—a $28 billion debt-relief package administered by the International Monetary Fund (IMF) and the World Bank—does not go to the poor. Instead, it goes to the same governments that racked up the debt in the first

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place, many of which are weak, corrupt, and authoritarian—hardly the best intermediaries to carry out a philanthropic agenda.

IN THE RED

DURING THE LATE 1970S, many HIPCs experienced a surge in the prices of their primary export commodities, such as oil, cocoa, tin, and coffee. Based on exceptionally strong export earnings, these countries borrowed from private banks and official export credit associations and then dramatically expanded government spending. But commodity prices quickly tumbled in the 1980s, and as a result, many HIPCs suffered dramatic downturns in their terms of trade (the prices of exports relative to imports). Ethiopia, for example, suffered a 90 percent degradation in its terms of trade between 1980 and 1993, while Côte d'Ivoire's terms of trade fell by nearly half. Meanwhile, a serious drought persisted in the Sahel, and high population growth continued across the board.

Under such circumstances, many HIPCs had trouble paying their creditors, both foreign and domestic. Borrowers and lenders alike initially saw this setback as temporary; HIPCs continued to borrow to make up the shortfall and stimulate economic growth based on optimistic predictions of recovering export prices. But even when it became clear that prices would not return to their previous highs, some countries were reluctant to cut government spending. They continued to borrow from other governments and multilateral institutions such as the IMF, the World Bank, and the African Development Bank. During the 1980s, long-term HIPC debt more than tripled before peaking in 1995. In 1997, 42 percent of this debt was owed to other governments, 22 percent to the World Bank and the IMF, and 10 percent to other multilateral institutions.

Still, the debt crisis might have been avoided if not for the bad economic policies and poor governance of many HIPCs. Many of them maintained money-losing public enterprises, created government posts to provide employment, imposed artificially high exchange rates and formidable trade barriers, and unduly concentrated on the production of just a few commodities. Many HIPC governments, moreover, have been riddled with corruption. In Transparency International's

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2000 survey, which ranks countries according to perceived corruption, 9 out of the 15 HIPCs included were ranked in the bottom quartile.

Although total losses due to high-level corruption are impossible to estimate, individual cases indicate losses in the millions and billions of dollars. Foreign creditors continued to lend to Zaire, for example, even while President Mobutu Sese Seko amassed a personal fortune estimated to be as much as $5 billion; to Côte d'Ivoire, even after President Félix Houphouet-Boigny built a basilica that cost an estimated $300 million of his "own money"; and to Kenya, even as government officials siphoned up to $1.1 billion from the national treasury and central bank.

Studies of petty corruption also present troubling results. A 1996 budget-tracking exercise in Uganda showed that in 1991, only 2 percent of nonwage public spending on education actually arrived at the schools; in 1995, only 20 percent did. Although the country has since addressed this problem, a contemporaneous study found that Ugandan health-care workers were stealing and selling 78 percent of drug supplies for their personal profit, dramatically reducing public health care for the poor.

What percentage of foreign aid is lost to such corruption? That is the wrong question to ask. Because money is fungible, aid dollars that are actually spent on social services can free up government money for other purposes. That is why so many people looked askance last year when Uganda concluded the purchase of a presidential jet within days of receiving HIPC debt relief. The only way to determine whether earmarked funds add to or substitute for government spending is to track all poverty-related spending and social-service provision. But according to a recent report by the IMF and the International Development Association (IDA), none of the HIPCs currently receiving debt relief are capable of doing so. These countries lack the practices and procedures necessary for budgeting, monitoring, and reporting on the use of public resources. More fundamentally, they lack basic institutions of accountability.

BREAKING ALL THE RULES

GOOD BUDGET EXECUTION starts with a good budget. But many HIPCs are unable to formulate good budgets because they lack access to reliable information. In Uganda, for example, official figures indicate that primary school enrollment remained stagnant from 1991 to 1995,

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even though it actually increased by 60 percent. Many HIPCs do not account for foreign aid that is controlled and spent by donors because the donors fail to provide them with the necessary information. And many HIPCs deliberately keep certain revenues off-budget.

This weakness in budgeting contributes to what the IMF/IDA report calls the "significant differences between planned and actual expenditures" in more than a third of the countries now receiving debt relief. What is budgeted is often not disbursed, and what is disbursed often does not arrive. Salaries go unpaid for months, operating funds do not materialize, and government debts remain unsettled. At the same time, the executive branch makes unbudgeted expenditures throughout the year. These loose practices make public spending data extremely spotty—and the data that does exist is often inaccurate or even falsified.

When making government purchases, moreover, HIPCs routinely violate the rules of public contracting. Officials award contracts to favored companies, despite laws requiring competitive bidding; manipulate bid criteria; violate the confidentiality of bid documents, which are not standardized; and privately negotiate the terms of contracts after the contracts are already awarded. As a result, these governments persistently purchase unnecessary, inappropriate, overpriced, or low-quality goods and services. Many HIPCs do not archive contract documents, making subsequent audits impossible. And complicated spending procedures prompt even well-intentioned officials to evade the rules.

HIPCs also fail to follow standard procedures of human-resource management. Recruitment is not transparent and does not correspond to actual staffing needs. Minimum qualifications for positions often do not exist, and where they do, they are not respected. Orders jump the official hierarchy, so that supervisors do not know what their subordinates are doing or to whom they are reporting. Bosses do not evaluate the performance of their employees, or they do so based on punctuality and dress rather than the quality and quantity of work. Promotions are given without regard to objective criteria, even where laws establish them. Records of work performance and of disciplinary sanctions are either incomplete or missing. Governments perpetually struggle with the problem of "ghost workers"—people collecting salaries without actually working for the government—and some HIPCs do not even know how many civil servants they have.

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OUT OF CONTROL

In many HIPCs, procedures and laws are violated in part because systems of monitoring and sanction are either weak or nonexistent. In many government agencies, supervisors do not visit, and inspections are not performed. And without reliable means of communication and transportation, remote local administrative units become isolated, independent fiefdoms. Audit offices are typically understaffed, undertrained, and underfunded. According to the IMF/IDA report, only a third of the HIPCs currently receiving debt relief have active audit systems—and even these are ineffective. Many governments do not close their books at the end of the fiscal year, and some government units—particularly local ones—keep no books at all.

When government officials violate the law, justice systems often cannot hold them accountable. Police forces are untrained and unequipped, subject to political interference, and no match for sophisticated white-collar criminals. Judiciaries are weak, underfunded, and corrupt. Case files are heaped in dirty corners or kept in rooms open to the public, making them easy to lose or manipulate. Judges lack access to law books and even paper on which to write opinions. The application of laws varies from city to city, based on the availability of texts. The executive branch firmly controls judicial appointments and promotions and constantly interferes in the judicial process. Administrative law—the basis on which orders from the executive branch are challenged—is underdeveloped, and most citizens do not know that the government is subject to the law, even if just in theory.

To make matters worse, legislatures cannot hold the rest of the government accountable. According to the IMF/IDA report, audited accounts are forwarded to legislatures within 12 months of the end of the fiscal year in fewer than one-fifth of the HIPCs now receiving debt relief. And even when legislators do see the accounts, they usually do nothing about them. With few exceptions, legislatures are firmly controlled by the president's party. Even those that strive to act independently are hampered by weak capacity. Many legislators are unable to read budgets, understand government documents, or draft legislation. Some cannot even communicate in the government's official language. And many legislatures have only a few technical staff.

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Finally, the ultimate guarantor of accountability—the electoral process—is either weak or nonexistent in many HIPCs. Of the 41 HIPCs, 11 do not hold multiparty democratic elections. Of the other 30, fewer than 10 have been able to vote governments out of office. As a consequence, most HIPC government officials do not fear losing an election if they fail to respond to the people's needs. This lack of accountability plays out in the theft and waste of public resources, in routine torture and extrajudicial killings, and in the prevalence of government impunity.

WATER IN A SIEVE

THE LACK of procedures and institutions to ensure accountability is not simply a technical problem to be fixed with more money and more training. Rather, the root of the problem lies with the nature of governance itself. In many HIPCs, illegality permeates the highest levels of government, implicating presidents, ministers, legislators, and supreme court justices. These officials fill posts with cronies and pressure them to grant personal favors and remit money (often collected through bribes and embezzlement). This top-down pressure for illegal activity trickles down to all levels of government, creating hierarchies of wrongdoing.

At the same time, government officials protect themselves by deliberately destroying the fabric of accountability. It is misleading to say simply that systems of accountability are weak or nonexistent: rather, someone is actively weakening or neglecting them. People charged with maintaining records falsify or destroy them; people responsible for nominating judges choose those who are obedient rather than those who are independent and honest; people allocating resources underfund judiciaries and audit offices. In the absence of control, all types of abuses become possible, from petty corruption to human rights violations. When most of the government is corrupt, the government is unable to sanction its own members or reform itself.

Such corruption is fueled by the public's demand for private goods rather than public policies, supporting a system of "patronage politics." The very definition of corruption—the abuse of public office for private gain—assumes the existence of public purposes for which the office should be used. But in the HIPCs that were forged under colonialism,

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many citizens do not yet have a sense of belonging to a public larger than their families, villages, or clans. Familial roles and social obligations take precedence over formal roles and legal obligations, which do not carry the authority of either tradition or legitimate government. People look to the government as a collection of resources for private consumption, and those aspiring to public office must satisfy the demands of their constituents—the army, the civil service, or their own ethnic clans. If systems of planning, public resource management, and service delivery are exceptionally weak in HIPC governments, it is because the constituencies they serve do not demand public accountability or public services.

Despite all this, debt-relief advocates continue to press the international community to forgive HIPC debt in the name of the poor. One advocacy Web site states, for example, that "more than 18,000 children die each day because loan repayments to rich countries come before health care to the poor." This statement assumes that high interest payments trade off with government spending on social services, and that low spending is the principal cause of poor service delivery. But in the case of some HIPCs, where the largest part of every dollar spent can "go missing," bad governance—not low spending—is the immediate cause of poor service delivery. Increasing social spending will not necessarily improve service delivery because water cannot be carried in a sieve. Moreover, interest payments do not necessarily "crowd out" social spending; left to their own devices, HIPC governments would not necessarily use the funds now allocated to debt payments to tackle the problems of the poor. In fact, some HIPCs had no policy responses to poverty, AIDS, or corruption until they were required to develop them as conditions for debt relief under the HIPC Initiative.

Ensuring the proper use of debt-relief dollars requires HIPC governments not only to commit those funds to poverty-reducing programs but also to address the serious governance problems that hamper effective resource management and social-service delivery. The necessary reforms are deep and painful and unlikely to be taken voluntarily. Therefore, unless debt forgiveness is effectively conditioned on both the proper use of funds and the pursuit of structural reforms, it is unlikely to help the poor. Even worse, debt-relief funds may be used

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to support activities that actually aggravate poverty, such as war. Or they may get illegally diverted by government officials, who protect themselves by further undermining institutions of accountability.

Although conditions alone cannot guarantee sustainable reform, they can establish new precedents, catalyze local constituencies for change, and open public dialogues about social and policy issues—provided that the conditions are well chosen and enforced. Unfortunately, the current political pressure for faster debt relief undermines the design and enforcement of such conditions.

FASTER, FASTER

ALTHOUGH public attention to debt relief peaked last year because of the Jubilee 2000 campaign, debt payments were already being rescheduled in the 1980s. And as the crisis deepened in the late 1980s and the 1990s, debt-relief efforts continued on increasingly concessional terms. In 1996, the IMF and the World Bank launched the HIPC Initiative, under which individual creditors pledged to reduce debt to sustainable levels. Three years later they introduced the Enhanced HIPC Initiative, which more than doubled the amount of relief to be provided. This expanded program had two objectives: to accelerate the delivery of debt relief and to link it more closely to poverty reduction. Unfortunately, pursuing the first goal has made the second one more difficult to achieve.

Under the Enhanced HIPC Initiative, countries seeking debt forgiveness are required to develop poverty-reduction strategies outlining specific goals and programs. HIPCs qualify for temporary debt relief (known as "passing the decision point") after they have formulated interim poverty-reduction strategies; they receive permanent relief (known as "passing the completion point") after they have "implemented a set of key, pre-defined social and structural reforms and maintained good macroeconomic performance." No fixed date is set for the completion point, but the interim period is expected to last an average of 15 months.

This ambitious schedule leaves little time for HIPCs to effectively develop multisector poverty-reduction strategies. Because countries receive interim debt relief before they finalize their plans for some

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sectors or even start to develop programs for others, they are unable to use the strategies to prioritize their spending for poverty reduction. As a result, they are unlikely to use their debt-relief dollars effectively. In the absence of good planning, for example, governments have strong incentives to spend on infrastructure, given the profitability of public contracting. But putting a hospital in every village and a court in every town is not necessarily the best way to improve the quality and quantity of health and judicial services, particularly where fundamental institutional problems remain unaddressed, local demand is unknown, and funds for staffing, operation, and maintenance are unavailable.

Under the Enhanced HIPC Initiative, moreover, the HIPCs themselves are responsible for managing debt-relief funds. They are also responsible for monitoring their own poverty-reducing spending, even though none of the HIPCs currently receiving debt relief is capable of doing so. The IMF/IDA report estimates that only two HIPCs—with the proper technical assistance—could be brought up to speed within a year; seven others could be ready within two years. Sixteen will require "substantial upgrading," for which no time estimate is ventured. In other words, most HIPCs will not be able to report on their use of debt-relief funds before the end of the anticipated interim period. And after they pass the completion point and receive irrevocable debt relief, they will no longer have incentives to monitor and report on spending or to pursue reforms.

Nevertheless, some debt-relief advocates are pressuring the IMF and the World Bank to speed up their schedules. But accelerating interim debt relief will only further reduce the time available to develop meaningful poverty-reduction strategies, negotiate substantive conditions, implement monitoring mechanisms, and establish oversight institutions. By the same token, expediting permanent debt relief will reduce the number of reforms and the amount of benefits to the poor that can be monitored and assured. For some HIPCs, accelerating disbursements will serve no purpose, as they are already receiving money faster than they can spend it.

Unfortunately, both donors and recipients of debt relief have gotten the message that speed should take precedence over assuring benefits for the poor. The IMF and the World Bank initially envisioned that

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countries would become eligible for debt relief only after they had established a three-year good track record. But this requirement has been subsumed by arbitrary numerical targets: in 2000, the two organizations announced that they would see 20 HIPCs pass the decision point by the end of the year. And instead of considering conditions that will provide the greatest benefits for the poor, some staff are now looking for conditions that can be easily satisfied in six months.

HIPCs are also aware of the political pressure for fast debt relief. Some governments—particularly those that are not reform-minded—may well predict that they can pass the completion point by simply making pro forma reforms and stalling for a few months. One HIPC that recently qualified for interim debt relief is already falling far behind schedule—even on easy, inexpensive measures. Very shortly, the international community will have to decide how serious it really is about tying debt relief to poverty reduction. But so far, no one has even discussed what will happen to countries that fail to meet conditions.

The indebtedness of the world's poorest countries is untenable. A long-term response to the problem must involve changes to the system of international aid, including the curbing of lending to heavily indebted countries and the establishment of minimum accountability requirements for governments managing aid money. But fresh lending to HIPC governments continues today—even as they benefit from debt relief.

A short-term response to the problem must entail debt relief, whether or not it has any impact on poverty. After all, poverty reduction is just one reason for forgiving HIPC debt. But if debt relief is to help the poor, advocates must give HIPC governments enough time to develop credible spending plans before interim debt relief is granted. They must monitor the implementation of key reforms and the delivery of social services to the poor. They must allow more time for the poor to realize gains before debt relief is made irrevocable. And they must send early and consistent signals that countries will not pass the completion point unless they use their debt-relief dollars to help the poor and satisfy their reform commitments. Having demanded and obtained debt relief in the name of the poor, advocates have a special responsibility to make sure that the needy actually benefit from it. The hardest work is still ahead—and the poor are watching.

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The Future of the American Pacifier

John J. Mearsheimer

PASSING THE BUCK

THE CENTRAL AIM of American foreign policy has traditionally been to dominate the western hemisphere while not permitting another great power to dominate Europe or Northeast Asia. The United States has not wanted a peer competitor. In the wake of the Cold War, U.S. policymakers remain firmly committed to this goal. An important Pentagon planning document stated in 1992, "Our first objective is to prevent the reemergence of a new rival ... that poses a threat on the order of that posed formerly by the Soviet Union. ... Our strategy must now refocus on precluding the emergence of any potential future global competitor."

In pursuit of this goal, the United States has behaved as an offshore balancer, committing troops to Europe and Northeast Asia only when there was a potential hegemon in those neighborhoods that the local powers could not contain by themselves. In effect, the United States has followed a "buck-passing" strategy—remaining on the sidelines while getting others to bear the burden of deterring or fighting aggressors—until it could no longer do so safely. Unless this realist pattern of behavior changes radically, the future of the U.S. military commitments to Europe and Northeast Asia can thus be expected to hinge on whether a potential hegemon emerges in either region that can be contained only

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with American help. If not, the more than 100,000 U.S. troops based in each region will probably leave in the first decade or so of the new century.

Europe and Northeast Asia are stable and peaceful today. Many attribute this quiescence to regional integration, or democracy, or the replacement of militaristic strategic cultures with pacific ones. In fact, however, the current peace and stability are based largely on auspicious distributions of power that make war highly unlikely.

But if the power structures that are now in place in Europe and Northeast Asia are benign, they are not sustainable for much longer. The most likely scenario in Europe is an eventual American exit coupled with the emergence of Germany as the dominant state. In effect, the region will probably move from its present bipolarity (with the United States and Russia as the poles) to unbalanced multipolarity, which will lead to more intense security competition among the European powers.

The evolution of the power structure in Northeast Asia, meanwhile, will depend on whether China's rise continues. If China does not become a potential hegemon, the United States is likely to pull its troops out of the area, thereby encouraging Japan to build up its military capability and become a great power once again. The regional system would remain multipolar and balanced, but security competition would be somewhat more intense than it is today.

If China does emerge as a potential hegemon, however, Northeast Asia will fall into unbalanced multipolarity and the United States will move to contain the Chinese threat. Because China has such vast latent power potential (due to the size of its economy and its population), this last scenario is clearly the most dangerous for the United States, and American foreign policy elites are trying hard to head it off—by engaging China in the hope that, as it becomes more prosperous and democratic, its demands and behavior will moderate, and by keeping large numbers of troops deployed in Northeast Asia in an attempt to prevent conflicts from starting. Yet both of these policies are misguided. U.S. interests would be best served by slowing Chinese growth rather than accelerating it, and by pulling American troops back so that they can stay out of future wars—or at least join them later rather than earlier.

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HARDLY ANY EVIDENCE before 1990 suggests that Washington is willing to commit troops to Europe or Northeast Asia except to block the imminent rise of a peer competitor. One might concede this history but argue that the more relevant evidence is what has happened over the last decade. It is true that during the 1990s substantial numbers of American troops remained abroad even though no great power threatened to dominate Europe or Northeast Asia. Too little time has passed since the Cold War ended, however, to make a judgment about whether U.S. forces will stay put for long in the absence of the Soviet threat or its equivalent.

The Soviet Union broke apart at the end of 1991, only ten years ago, and the last Russian troops were removed from the former East Germany in 1994, a mere seven years ago. Given the suddenness of the Soviet collapse and its profound effect on the balance of power in Europe and Northeast Asia, the United States has needed time to figure out what these changes mean for American interests. By way of comparison, World War I ended in 1918, but U.S. troops were not completely withdrawn from Europe until 1923, and British troops remained on the continent until 1930—12 years after the fighting stopped.

Simple inertia has also been an important factor in delaying the American withdrawal. The United States has maintained large-scale military forces in Europe since 1943, when it invaded Italy during World War II, and in Northeast Asia since 1945, when it occupied Japan at the end of that war. Both NATO and the American alliance structure in Northeast Asia are institutions with deep roots that helped win a spectacular victory in the Cold War, and the United States could not walk away from them overnight. Furthermore, maintaining forces in Europe and Northeast Asia in the past decade has been relatively cheap and painless. Not only has the American economy flourished during this period, generating large budget surpluses in the process, but China and Russia have been easy to contain, because they have been much weaker than the United States.

There is considerable evidence, however, that the United States and its Cold War allies are now beginning to drift apart. This trend is most apparent in Europe, where NATO's 1999 war against Serbia and

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its messy aftermath have damaged transatlantic relations and prompted the European Union to begin building a military force of its own that can operate independently of NATO—meaning the United States. The United Kingdom, France, Germany, and Italy are slowly but inexorably realizing that they want to provide for their own security and control their own destiny. They are less willing to take orders from the United States than they were during the Cold War. Japan, too, is showing signs of independent behavior. And the U.S. commitment to defend Europe and Northeast Asia is weakening. Public opinion polls and congressional sentiment seem to indicate that the United States has become, at best, what one commentator has called a "reluctant sheriff" on the world stage. Over time, therefore, the U.S. military role abroad is likely to diminish, not increase.

Given that the United States is widely recognized to be a pacifying force in Europe and Northeast Asia, one might wonder why its allies would assert their independence from the United States, a move that is almost certain to cause transatlantic friction. Some might say that this is evidence that Washington's former allies are now trying to balance the mighty United States. But that response is not convincing, because the United States has no appetite for conquest and domination outside of the western hemisphere. Offshore balancers do not provoke balancing coalitions against themselves; indeed, their main mission is to help balance against others.

America's Cold War allies have started to act less like dependents and more like sovereign states because—being perhaps more perceptive than Washington's own foreign policy elites—they fear that the offshore balancer that has protected them for so long might prove to be unreliable in a future crisis. The reliability of the United States was not a serious problem during the Cold War, because the Soviet threat provided a powerful incentive for the United States to protect its allies, who were too weak to defend themselves. The absence of that threat, however, has led America's allies to question how long the United States will take its commitment to their security seriously. Moreover, it has created a situation in which states such as Germany and Japan have the option of trying to protect themselves without American help.

The United States is also bound to raise doubts about whether it is a wise and reliable ally thanks to the policies it pursues, if only because

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U.S. interests are not identical to those of its friends. For example, President Bill Clinton, hoping to improve Sino-American relations, visited China for nine days in 1998 without stopping in Japan. His itinerary was seen by Japanese leaders as evidence that their alliance with the United States was weakening. In Europe, the ongoing Balkan crises have raised doubts about American leadership. The United States and its European allies, moreover, have conflicting views about Middle East policy, about employing NATO forces outside of Europe, and especially about developing a national missile defense. Over time, differences of this sort are likely to cause America's allies to provide for their own security, rather than rely on the United States.

In sum, the brief history of the 1990s is not a good indicator of what the future holds for U.S. military involvement in Europe and Northeast Asia. That issue will likely be resolved in the early years of the current century, and the determining factor will be whether a potential hegemon emerges in either region that the United States must help contain. Only the threat of a peer competitor is likely to provide sufficient incentive for the United States to risk involvement in a distant great-power war.

EUROPE'S FUTURE

FIVE EUROPEAN STATES now have sufficient wealth and population to qualify as potential great powers: the United Kingdom, France, Germany, Italy, and Russia. Of these, however, only Germany has the earmarks of a potential hegemon. It is the wealthiest European state, has the second-largest population (after Russia), and has the most powerful army in the region. Nevertheless, Germany is not a great power today, much less a potential hegemon, because it has no nuclear weapons of its own and because it is heavily dependent on the United States for its security. If American troops were pulled out of Europe, however, and Germany became responsible for its own defense, it would probably acquire its own nuclear arsenal and increase the size of its army, transforming itself into something much more formidable.

To illustrate Germany's potential military might, consider the population and wealth differentials between Germany and Russia during the twentieth century. Although Russia has always enjoyed a

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significant population advantage over Germany, its present edge is smaller than at any other time in the past hundred years. For example, Russia had approximately 2.6 times as many people as Germany in 1913 (175 million vs. 67 million), and twice as many in 1940 (170 million vs. 85 million). Despite this population disadvantage, Germany was a potential hegemon in both those years because of its marked advantage in wealth. It had a roughly 3.6-to-1 advantage in industrial might over Russia in 1913, and a 1.3-to-1 advantage in 1940.

A withdrawal of U.S. troops from Europe will produce great-power competition and a nuclear Germany.

Over the last 15 years, the balance has shifted quite rapidly in Germany's favor, bringing it back to a very powerful position. In 1987, a representative year of the Cold War, the Soviet Union had roughly 4.7 times as many people as did West Germany (285 million vs. 61 million). Russia today, however, has only about 1.8 times as many people as Germany (147 million vs. 82 million), and Germany has a startling 6.6-to-1 advantage in wealth. Thus Germany now has a significant advantage in latent power over Russia, much like it had in the early twentieth century, when it was the dominant power in Europe.

Germany also has an advantage in conventional military power. The size of Germany's standing army is 221,100 soldiers, and it can be quickly augmented by 295,400 reserves, thus creating a highly effective fighting force of more than half a million soldiers. Russia has about 348,000 soldiers in its standing army, and although it has a large pool of reserves, they are poorly trained and hard to mobilize quickly and efficiently in a crisis. In terms of quality, the German army is well trained and well led, whereas the Russian army is neither. Only on the nuclear front does Russia dominate, but Germany has the wherewithal to rectify this asymmetry if it chooses to.

Yet even though Germany is likely to become a potential hegemon if it has to provide for its own security, the United States is still likely to pull its forces out of Europe. Why? Because despite Germany's significant military potential, other European powers should be able to keep it from dominating Europe without help from the United States. The United Kingdom, France, Italy, and Russia together have

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about three times as many people as Germany does, and their combined wealth is roughly three times greater than Germany's. The United Kingdom, France, and Russia all have nuclear weapons, moreover, providing a strong deterrent against an expansionist Germany even if it does develop its own nuclear option.

Without the American pacifier, Europe is not guaranteed to remain peaceful. Indeed, intense security competition among the great powers would likely ensue because, upon American withdrawal, Europe would go from benign bipolarity to unbalanced multipolarity, the most dangerous kind of power structure. The United Kingdom, France, Italy, and Germany would have to build up their own military forces and provide for their own security. In effect, they would all become great powers, making Europe multipolar and raising the ever-present possibility that they might fight among themselves. And Germany would probably become a potential hegemon and thus the main source of worry.

Looking at Europe today, such a forecast might appear far-fetched, but that is because few are prepared to consider how radically the European security environment will be transformed by the withdrawal of U.S. troops. Once the major European powers are forced to provide for their own defense, suspicions among them are certain to grow, thereby triggering the familiar dynamics of great-power competition.

The kind of trouble that might lie ahead for Europe can be illustrated by considering how particular German measures aimed at enhancing its security might nevertheless lead to instability. If the United States removed its security umbrella from over western Europe, Germany would likely move to acquire its own nuclear arsenal. This would be the case both because nuclear weapons are an excellent deterrent, as Germany's governing elites recognized during the Cold War, but also because it would be the best way to escape potential coercion by its three nuclear-armed neighbors. During the proliferation process, however, these neighbors would probably contemplate using force to prevent Germany from going nuclear, and the result could be a major crisis.

Without the American military on its territory, furthermore, Germany would probably increase the size of its army and certainly would be more inclined to try to dominate central Europe. Why? Because Germany would fear Russian control of that critically important

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buffer zone between them. Of course, Russia would have the same fear in reverse, which would likely lead to a serious security competition between them for control of central Europe. France, meanwhile, would undoubtedly view such behavior by Germany with alarm and take measures to protect itself—for example, by increasing its defense spending and establishing closer relations with Russia. Germany, of course, would perceive these actions as hostile and respond with measures of its own.

Depending on what happens with Russia, however, Europe's future could turn out differently. It is conceivable, although unlikely, that Russia, rather than Germany, will become Europe's next potential hegemon. For this to happen, Russia would need to match its large population with greater wealth. Although it is hard to imagine this happening over the next 20 years, if it did so the other European powers would probably be able to contain the potential Russian threat on their own. A wealthy Russia would not be a paper tiger, but it would not be so formidable that U.S. troops would be needed to contain it.

Russia could also go in the other direction: its economy could collapse, possibly causing severe political turmoil, and the country could effectively be removed from the ranks of the great powers. But in this event, the other European powers would not be strong enough to contain Germany on their own, and would need help from the United States. This alternative future is not likely to come about either, but if it did, U.S. troops would surely remain in Europe to help the United Kingdom, France, and Italy check German expansion.

CHINA'S CHALLENGE

THREE NORTHEAST ASIAN STATES—China, Japan, and Russia—presently have sufficient population and wealth to qualify as potential great powers, but at the moment none is a potential hegemon. Japan is by far the wealthiest state in the region. Its GNP is about 3.5 times as large as China's and more than 12 times as large as Russia's. Nevertheless, Japan is not in a position to convert its substantial wealth into a decisive military advantage that could be used to threaten the rest of Northeast Asia, for two reasons.

First, although Japan is now much richer than either China or Russia, its population is relatively small—about one-tenth the size of

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China's, with the gap likely to widen even further over the next 50 years. It would thus be almost impossible for Japan to build an army more powerful than China's. It could certainly build an army that is qualitatively superior, but not so much better that it would offset the numerical advantage that China could maintain because of its huge population. Second, if Japan tried to overrun Northeast Asia, it would also face a serious power-projection problem. It is an insular state that is physically separated from the Asian mainland by a substantial body of water. Thus, unless Japan could secure a foothold on the Asian continent—which would be unlikely—it would have to invade from the sea to conquer it. Japan had little difficulty invading and maintaining a large army on the continent when it chose to between 1895 and 1945, because China and Korea were both so weak. But today China and Korea are much more formidable adversaries, and they would surely use their armies to oppose a Japanese invasion of the Asian mainland. Amphibious operations against territory controlled by China and Korea would be a daunting task. In short, if Japan shakes loose the United States and becomes a great power in the next decade or so, it is more likely to resemble the United Kingdom in the mid-nineteenth century than Japan in the first half of the twentieth century.

Russia also has little chance of dominating Northeast Asia over the next two decades. It is hard to imagine Russia building an economy more powerful than Japan's any time soon. But even if Russia were to experience spectacular economic growth, it would still face essentially the same population problem vis-à-vis China that Japan does. China has more than eight times as many people as Russia and the gap between them is likely to widen. Thus not even a wealthy Russia could field an army more powerful than China's. And Russia also has significant security concerns in Europe and on its southern borders, which limit the military resources it can devote to Northeast Asia.

The key to understanding the future distribution of power in Northeast Asia, therefore, is China. It is clearly not a potential hegemon today, because it is not nearly as wealthy as Japan. But if China's economy continues expanding over the next two decades at or near the rate it has been since the early 1980s, China will likely surpass Japan as the wealthiest state in the region. And because of its vast

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population, China has the potential to become even richer than the United States in the long term.

China's potential wealth and power can be illustrated in the following way. Right now, Japan has a population one-tenth the size of China's and a per capita GNP ($32,350) that is 40 times greater. If China modernizes to the point where it has about the same per capita GNP as South Korea does today ($8,600), it will have an economy 2.5 times the size of Japan's current one and 1.3 times the size of the U.S. economy. And if China achieves a per capita GNP equal to about half that of Japan, its economy will be 5 times larger than Japan's and 2.5 times larger than that of the United States. For most of the Cold War, it should be remembered, the Soviet economy was only about half the size of the American economy.

It is difficult to predict where the Chinese economy is headed, and thus whether China will overtake Japan and become a potential hegemon in Northeast Asia during the next few decades. Nonetheless, the principal ingredients of military power in that region are likely to be distributed in one of two ways. The first scenario would emerge if China's economy stops growing rapidly and Japan remains the wealthiest state in the region. In these circumstances, neither would become a potential hegemon and the United States would likely bring its troops home. Japan would then almost surely establish itself as a great power, building its own nuclear deterrent and significantly increasing the size of its conventional forces. But there would still be balance in the region: Japan would replace the United States, and China and Russia would remain the region's other great powers. In short, an American exit would not change the basic regional power structure, and presumably would not make major war there more or less likely than it is today.

Substituting Japan for the United States would, however, increase the likelihood of regional instability. Whereas the United States has a robust nuclear deterrent that contributes to peace, Japan would have to build its own. That process, however, would be fraught with dangers, because China and perhaps Russia would be tempted to use force to prevent the emergence of a nuclear-armed Japan. The deep-seated fear of Japan in Asia that is a legacy of its behavior between 1895 and 1945, moreover, would surely be fanned if Japan acquired a nuclear

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deterrent, intensifying security competition in the region. And even though Japan would face profound limits on its ability to project power onto the Asian mainland so long as China remained a great power, it still has potentially troublesome territorial disputes with the mainland powers—with China over the Senkaku/Diaoyutai Islands, with South Korea over the Takeshima/Tokto Islets, and with Russia over the Kuriles. Finally, although China is militarily too weak to fight a major war with the mighty United States, it is not likely to be as outgunned by Japan, which simply does not have the population or the wealth to fully replace U.S. military power.

The second scenario would emerge if China's economy continues growing at a robust pace. This would eventually enable it to become a potential regional hegemon, leading the United States to remain in Northeast Asia—or return to it if it had left—in order to prevent China from becoming a global peer competitor. This would be necessary because China would be too strong to be contained by Japan and Russia, even if they got help from India, South Korea, and Vietnam. Not only would China be much wealthier than any of its Asian rivals in this scenario, but its huge population advantage would allow it to build an army far more powerful than that of either Japan or Russia and to acquire an impressive nuclear arsenal. As a result, Northeast Asia would be a dramatically unbalanced multipolar system, and thus a much more dangerous place than it is now. Like all previous potential hegemons, China would be strongly inclined to translate its potential influence into reality, and all of its rivals, including the United States, would encircle it to try to keep it from expanding.

ANALYTICAL INCORRECTNESS

THE IMPLICATIONS of this analysis for the future of American national security policy are clear. The most dangerous scenario the United States might face in the early twenty-first century is one in which China becomes a potential hegemon in Northeast Asia. Of course, China's prospects of doing so depend largely on whether its economy continues modernizing at a rapid pace. If that happens, and China becomes not only a leading producer of cutting-edge technologies but also the world's wealthiest great power, it would almost

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certainly use its wealth to build a mighty military machine. For sound strategic reasons, moreover, it would surely pursue regional hegemony, just as the United States did in the western hemisphere during the nineteenth century. So if Chinese relative power grows substantially, one should expect it to attempt to dominate Japan and South Korea, as well as other regional actors, by building military forces that are so powerful that those other states would not dare challenge it. One should also expect it to develop its own version of the Monroe Doctrine, directed at the United States; just as the United States has made it clear to distant great powers that they are not allowed to meddle in the western hemisphere, China will make it clear that American interference in Asia is unacceptable.

Economic growth could give China regional hegemony, if the United States does not help contain it.

What makes a future Chinese threat so worrisome is that it might be far more powerful and dangerous than any of the potential hegemons that the United States confronted during the twentieth century. Neither Wilhelmine Germany, nor imperial Japan, nor Nazi Germany, nor the Soviet Union had nearly as much latent power as the United States did during their confrontations. But if China were to become a giant Hong Kong, it would eventually have several times as much latent power as the United States, allowing it to gain a decisive military advantage in Northeast Asia. In that situation, it is hard to see how the United States could prevent China from becoming a peer competitor, or even from eventually becoming a more formidable superpower.

This analysis suggests that the United States has a profound interest in seeing Chinese economic growth slow considerably in the years ahead. For much of the last decade, however, the United States has pursued a strategy intended to have the opposite effect. The United States has been committed to engaging China rather than containing it. Constructive engagement is predicated on the liberal belief that if China could be made both democratic and prosperous, it would become a status quo power and not engage in security competition with the United States. As a result, U.S. policy has sought to integrate China into the world economy and facilitate its rapid economic development, so that it becomes wealthy and content with its position in the international system.

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This approach is misguided, however, because a wealthy China would not be a status quo power; it would be an aggressive one determined to achieve regional hegemony—not because a rich China would have wicked motives, but because the best way for any state to maximize its prospects for survival is to dominate its region of the world. Although it is certainly in China's interest to be the hegemon in Northeast Asia, it is clearly not in the interest of the United States to have that happen.

At the same time that it is building up rather than placing obstacles in the way of its greatest potential rival, the United States is also exposing itself to trouble rather than taking sensible precautions in advance of future conflict. Many in the U.S. foreign policy elite today dismiss the buck-passing strategy that has served the nation well in the past. Rather than dispatching troops only to head off an imminent danger from an unchecked potential hegemon, they offer a different rationale for maintaining a robust U.S. military presence abroad. The United States, they argue, has a deep-seated interest in maintaining peace in Europe and Northeast Asia, and its troops have to stay there because bringing them home would probably lead to instability and maybe even great-power war.

Peace in these regions, according to the current conventional wisdom, is of vital importance to the United States for both economic and security reasons. A major war in either area would undermine American economic prosperity. Given the high levels of economic interdependence among the world's wealthiest powers, even if the United States managed to stay out of the fighting, a great-power war would badly damage America's economy as well as those of the warring states. Since the United States invariably gets dragged into distant great-power wars, moreover, Americans are deluding themselves if they think they can sit out a major conflict in either Europe or Northeast Asia. To avoid having large numbers of Americans die down the road, therefore, the United States should maintain forces in those regions and preserve the peace, now and for the foreseeable future.

This conventional wisdom is seriously flawed. There is indeed little doubt that peace in Europe and Northeast Asia is a desirable goal for the United States. The key issue, however, is whether peace is important enough to justify putting U.S. troops in harm's way, which is the risk the United States runs if it stations forces in those

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regions indefinitely. In fact, although peace in these two wealthy regions is an important U.S. interest, it is not a vital one. The rationale for thinking otherwise is unconvincing and receives little support from the historical record.

Consider the claim that a war in Europe or Northeast Asia would undermine American prosperity, which is generally based on assertion, not analysis. The only study that I know of on the subject, by political scientists Eugene Gholz and Daryl Press, contradicts that claim. It concludes that "the primary effect of overseas wars on the economies of neutral countries is to redistribute wealth from belligerents to noncombatants, enriching neutrals rather than impoverishing them." In essence, in the event of an Asian or a European war the United States would not only probably become more prosperous in absolute terms, it would also gain relative power over the warring states. This is what happened to the United States when it was neutral for much of World War I: after some initial problems, the American economy flourished, while the economies of the European great powers were badly damaged. There is little reason to think that a major war in Europe or Northeast Asia today would seriously damage the U.S. economy, since, as Gholz and Press note, the U.S. economy is "roughly as vulnerable to a major great power war in Asia as it was to World War I, but it is only half as vulnerable today to disruptions in Europe as it was early in the 20th Century."

There is little reason to think a war in Europe or Northeast Asia would seriously damage the U.S. economy.

Even if this analysis is wrong, however, and a major war in Europe or Northeast Asia would make Americans less prosperous, the United States would still be unlikely to fight just to ensure continued economic prosperity. Two prominent cases in recent times support this point. The United States did not use, or even seriously consider using, military force against any of the members of the Organization of Petroleum Exporting Countries during the oil crisis of the mid-1970s, even though OPEC's actions at the time undermined American prosperity. Furthermore, in the fall of 1990, the administration of President George H.W. Bush briefly tried to justify the impending Persian Gulf War on the grounds that Iraq's invasion of Kuwait had

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to be reversed because it threatened American jobs. This argument was heavily criticized and quickly abandoned. If the United States was unwilling to fight a war against weak oil-producing states for the sake of economic prosperity, it is hard to imagine it engaging in a great-power war for the same purpose.

The claim that the United States invariably gets drawn into great-power wars in Europe is also not persuasive. Both the United Kingdom and the United States have traditionally been offshore balancers who have been pulled into great-power conflicts only when there has been a potential regional hegemon that other parties could not contain by themselves. For example, both the United Kingdom and the United States were content to sit out the Franco-Prussian War (1870–71) and the Russo-Japanese War (1904–5), because in neither case did the outcome threaten to create a hegemonic power. Moreover, the United States would not have entered World War I or World War II had the European powers been able to contain Germany by themselves. It was only because Germany threatened to overrun Europe in early 1917 and again in mid-1940 that the United States accepted a continental commitment.

One might counter that if the United States stays put in Europe and Northeast Asia, there will be no great-power war in the first place and thus no danger that Americans might have to suffer its horrible costs. But although a U.S. military presence may make war less likely, it cannot guarantee that conflict will not break out. If the U.S. military stays put in Northeast Asia, for example, it could plausibly end up in a war with China over Taiwan. If a great-power war does occur, moreover, this time the United States will be involved from the start, which does not make good strategic sense. It would be best for the United States either to avoid the fighting entirely or, if it has to join in, to do so later rather than earlier. That way, the United States would pay a much smaller price than the states fighting from start to finish and would be well positioned at the war's end to win the peace and shape the postwar world to its advantage.

China is still far away from having enough latent power to make a run at regional hegemony, so it is not too late for the United States to reverse course and do what it can to slow China's rise. And the current U.S. military commitments to Europe and Northeast Asia are hardly

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set in stone—as America's allies in those regions understand all too well. The powerful structural imperatives of the international system, in fact, will probably force the United States to abandon its policy of constructive engagement in the near future and bring its troops home if there is no immediate threat for them to counter. But states occasionally ignore signals from the anarchic world in which they operate, choosing instead to pursue strategies that contradict straightforward balance-of-power logic. The United States is a good candidate for behaving in that way, because American political culture is deeply liberal and correspondingly hostile to realist ideas. It would be a grave mistake, however, for the country to turn its back on the realist principles that have served it well since its founding.

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Russia's Unformed Foreign Policy

Robert Legvold

TEN YEARS AFTER

NOTHING distinguishes contemporary Russian foreign policy more than the uncertainties surrounding it. Alone among great powers, Russia faces fundamental questions of identity—if anything, more intense today than they were ten years ago. Is Russia a country of consequence in the world, and if so, how and why? Who are the Russians, and where does the country belong—with the West, with China, or somewhere on its own? Harsher yet, who will have it?

Russian leaders spend a fair amount of time reassuring themselves about the greatness and importance of their country. The government's official foreign policy strategy, announced June 28, 2000, refers to the Russian Federation as "a great power ... one of the most influential centers of the modern world ... [with a] responsibility for maintaining security in the world both on a global and on a regional level." Such preening is hard to imagine from, say, Berlin or Tokyo, but Moscow feels the need.

Yet Russian leaders also know that their country's share of world GDP is now down to 1.5 percent, compared with the United States' 21 percent contribution. (We know they know because the figures come from an article in the journal *Mezhdunarodnaya zhizn* written by the deputy director of the planning staff of the Ministry of Foreign Affairs and published at roughly the same time as the official foreign policy

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CORBIS-BETTMANN

The march of history: a matrioshka doll, Moscow, March 25, 2000

doctrine.) In his first state-of-the-union address, two weeks after the doctrine's unveiling, President Vladimir Putin admitted that the Russian population has been shrinking by 750,000 a year and raised the possibility that "15 years from now there may be 22 million fewer Russians. ... If the present tendency continues there will be a threat to the survival of the nation." Russia's feebleness, as he and nearly every other Russian know well, is manifest at every turn.

This is hardly what one would expect of one of the "most influential centers of the modern world." Still, to take Russian weakness as the reality they know and the boasting as the gloss with which they compensate would be to miss the way Russians are struggling with the "who are we" question. They are aware that, for all its weaknesses, Russia matters to others for three reasons: the atom, the veto, and the location. Nuclear weapons and Russia's permanent seat on the U.N. Security Council are important reasons not to think of Russia as a disempowered nonentity. In addition, Russians realize that they still have potent influence within their immediate neighborhood and that if that neighborhood is important to the larger world, Russia must be

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important as well. Russian elites, including the president, quite consciously see their capacity to shape events in Central Asia, the Caucasus, Ukraine, Belarus, and Moldova as a key to strengthening their international standing. Their uncertainty is over how to muster and deploy this capacity.

To complicate the picture further, Russians perceive the impact of their country in terms beyond its (missing) material power. Russians want to believe that, as a distinct civilization, they can and should exert an influence on the outside world. Perhaps this is only psychological balm for what Russia does not have, but even the most nonsentimental Russian politicians hark back to this notion often enough to suggest that it plays a role in their thinking. Such a vague sentiment, however, merely adds to their quandary. Not only are Russian leaders unable to translate it into a practical idea, but they fully understand that Russian values cannot translate abroad until those values are revitalized, sold to their own people, and made intelligible to others.

GO WEST?

IF QUESTIONS about Russia's identity and status shadow the country's foreign policy on a deep emotional level, another set of concerns is more practical and immediate. The first of these is whether to seek partnership with the West. This question is not about identity but about strategic choice. With whom should Russia align to advance its workaday interests? It is important to recognize that this question is posed not in a neutral or general way but specifically in terms of the West. Other alignment options come afterward and arise only as part of the leadership's (unsuccessful) struggle to resolve the question of Russia's attitude, aims, and approach toward the West.

Choosing a partner other than the West is scarcely easier. Partnership with China remains largely hypothetical, a choice that in the end depends far more on China than on Russia. Partnership with both China and India is a more impressive alternative but is even further out of reach for the moment. When a spokesperson for the Russian foreign ministry raised this possibility on the eve of Foreign Minister Igor Ivanov's latest trip to India in April, Chinese Foreign Minister

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Tang Jiaxuan, in Moscow at the time, said once again that China was not interested.[1] Soon the Indians declined as well.

Still another option can be summed up in the turn of phrase "the West and the rest." Some Russians have toyed with the notion of Russia's siding with the many countries opposed to U.S.-led Western dominance. This is not the lunatic "southern strategy" proposed by right-wing parliamentarian Vladimir Zhirinovsky (who calls for a Russian alignment with every outlaw regime from Iraq to Libya), yet the gain to Russia is hardly more evident than the gain from Zhirinovsky's strategy.

The last alternative is what might be called "fortress Russia." Unlike the others, it is very much within Russian control. It is the option that Russian politicians cite regularly, especially when all else seems unavailing. Out of frustration more than preference, they imagine Russia standing on its own, eschewing alliances other than with former Soviet republics, marshaling its own resources to defend its most vital interests, and focusing on enhancing relations with regions close to Russia and essential to those vital interests. Although it would involve geographical retrenchment, "fortress Russia" is not isolationist. Nor does it require giving up great-power aspirations. On the contrary, Russia would still exert every effort to make itself a country of consequence.

Westernizers among the Russian foreign policy elite sometimes insist that the choice has already been made. Putin deeply desires to draw Russia toward the West, they say, but—unlike during the early years of Boris Yeltsin's presidency—on Russia's terms. They consider Putin's references to Russia as a European nation and to Russian culture as European as a signal of his desire to be invited into Europe. Despite their wishful claims, however, the issue seems far from resolved. Happy as Putin and his people are with the bonhomie of their first encounter with President George W. Bush in June and with the flurry of activity marking their relations with the western Europeans, none of this diplomacy indicates the Russian leadership's readiness to face basic choices.

[1] The spokesperson was Alexander Yakovenko ("Igor Ivanov letit v Deli," *Nezavisimaya gazeta*, April 29, 2001); Tang's response was reported by the PTI News Agency (New Delhi) on May 3, 2001. The idea was first seriously raised by then Foreign Minister Yevgeny Primakov on the eve of his December 1998 trip to India.

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A second question fits within the first, rather like a *matrioshka*, the Russian nested doll. Russian policymakers and politicians are having difficulty settling on the implications of U.S. global primacy. They know that they do not like it at a visceral level, but precisely what it means for Russia and what they should do about it remains a conundrum. This question is linked with the first because it greatly muddies the issue of the kind of relationship Russia can have with the West. If Russia were to decide to contest U.S. primacy, what kind of relationship could Moscow have with the Europeans? Dare it think of the West in any way that does not feature the United States? And even if Russia did choose to resist U.S. preeminence, how would it go about doing so effectively? As one Russian analyst has put it, "there can be all kinds of plans highlighting the Commonwealth of Independent States, Europe, or China. They are all good, but only as food for thought. Whether we like it or not, our possibilities in the rest of the world are largely determined by our relations with the United States."[2]

GRAVE NEW WORLD

THE OUTSIDE DOLL of the *matrioshka* frames the two previous questions about partnership with the West and U.S. primacy. Russian leaders are deeply confused about the very nature of the new world facing them. Is it essentially an economic world, one primarily concerned with the wealth of nations? Or is it still dominated by security issues, ranging from internal threats to national cohesion to external threats to national sovereignty where misshaped military balances matter?

Here enter the rambling, muddled debates about multipolarity and globalization. Ever since a majority of the Russian foreign policy elite decided around 1996 that U.S. primacy was bad, multipolarity has been the common currency of discussion. The debate has revolved around three questions: Is multipolarity relevant, especially given other powerful forces at work, such as globalization? If it is

[2] Viktor Kuvaldin, "Does Growing Anti-Americanism in Russia Pose a More Serious Threat to the U.S. or to Us?" *Nezavisimaya gazeta*, May 12, 2001. Kuvaldin is a member of former President Mikhail Gorbachev's circle.

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relevant, is it a reality or a goal—an objective description of how things stand or simply an end that Russia and other unhappy players might pursue? If only a goal, is it an appropriate and wise one for Russia? Various Russians have different answers to each of these questions, but apparently few of them, not even the president and senior policymakers, understand that they have to answer those questions in order.

In the case of globalization—a topic that is beginning to rival multipolarity in Russian analytical circles—much of the discussion is about winners and losers and the threats that globalization poses. Few Russians have begun sorting out globalization's more subtle dimensions. As a result, they argue over whether the essentially economic issues that globalization raises should be given priority over the more familiar concerns of armed disorder and military disadvantage. The debates over both multipolarity and globalization, however, are about what the outside world can do to and for Russia, and in neither case are Russian leaders at all clear about the answers.

Although individual Russian commentators have their own responses to some of these questions (the three questions that make up the *matrioshka*), the leadership seemingly does not—at least those who articulate national policy offer nothing that looks like a judgment on which to base policy. Thus, compounding the disorientation that flows from fundamental uncertainties, contemporary Russian foreign policy, ten years after the collapse of the Soviet Union, has few answers to the questions that encase it.

Unable to provide answers that would give depth and coherence to policy, the Russian establishment has formulated a united conception of threat and uses this as a common ground on which to build. Beyond the permanent, internal threat—the prospect of domestic economic and political failure—three other threats weave their way through official statements of foreign and security policy. What Russians recognize but are loathe to acknowledge is that all three pose the danger of Russia's being left out.

First, there is the threat of U.S. unilateralism under unipolarity. Kosovo is the best example, but Putin and his foreign policy team stress that the danger arises not from a single instance but from an overall pattern of behavior. As a result, the Russians, along with the Chinese, are the leading proponents of a "strict constructionist" interpretation of

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the United Nations Charter, especially regarding those sections dealing with the use of force. For the same reason, they speak often and emotionally of the "immutable right of the veto." And they stress state sovereignty as a right, whereas the West increasingly views it as a responsibility. These positions have become their first line of defense against the perils of the United States' doing what it wants where it wants.

They also sense that even U.S. allies share their misgivings over growing American unilateralism. Russian leaders appear to calculate that joining or even helping to mobilize a consensus against one-sided U.S. actions may constitute a second line of defense. Beyond this stands the temptation to think bigger—to play with the idea of actually balancing against the United States. Yet the Russians realize that they cannot do it alone, and no country of any importance is yet ready to throw its lot in with them. The idea dissipates in a meaningless haze of rhetoric.

The second threat concerns the dangers of globalization. Since the financial crisis of 1998, Russian leaders have come to recognize that globalization punishes the economically weak and not merely the economically undeveloped. They also realize that the effect of globalization on disadvantaged countries will depend on how self-absorbed and stingy the economically strong turn out to be. But they have no idea about how to shape the outcome.

The third threat comes from regionalization, and it takes two forms. Russians are acutely aware that most of the violence in the world occurs within failed or failing states in regions that may not be of pressing concern to the international institutions capable of stopping the violence—and that several of these regions border Russia. Russians also worry that regional trading blocs and regional markets are becoming the most powerful economic formations in an increasingly interdependent world. Putting aside the sputtering and uninspiring ties that Russia has with the other post-Soviet states, regionalization of this sort makes little room for Russia.

RES PUTIN

Because Russian leaders either do not know how to resolve their underlying uncertainties or are not ready to try, they leave policy without a solid conceptual foundation. Putin and his colleagues make

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little effort to define the world in which they live and Russia's role in it. Their confusion is driven home by documents, such as the June 2000 official doctrine, that string together a series of hopes, fears, and slogans rather than create a workable, analytical basis for policy.

Lacking conceptual ballast, Putin's team is not in a good position to make strategic choices; as during the last years of the Yeltsin era, Kremlin decision-makers spend much of their time avoiding strategic policy decisions. Contrary to the recurring alarm in the Western news media that Putin is trying to mobilize the Europeans against the Americans or is getting ready to abandon a Western option and push for a strategic alignment with China, the mark of Putin's foreign policy is the studious effort not to choose. This approach leads to a criticism widespread in the Russian foreign policy community that, despite Putin's whirlwind travels these past two years, Russian foreign policy is without a strategy.

Putin hopes to increase Russia's influence in the post-Soviet space.

But one dimension does have a considerable degree of coherence. At a tactical level, Putin has set priorities and pursued them with consistency. His first priority is economics. Under Putin, not only is foreign policy to be subordinated to domestic needs, as every Russian leader back to Mikhail Gorbachev has stressed, but economic relations have received special attention. Since his election in April 2000, Putin has traveled constantly—to Austria, Canada, Cuba, France, Germany, India, Italy, Japan, North Korea, Poland, Serbia, Slovenia, South Korea, Sweden, Turkey, the United Kingdom, and Vietnam—and everywhere he has worked at upgrading Russia's economic ties.

In nearly all of the seven high-level meetings held with the Chinese over the last two years, a key Russian priority has been to increase Russia's current 1.6 percent share of China's foreign trade and expand exports to China beyond commodities or low-value-added products. (Russian exports to China consist mostly of such goods, even though China and India together buy, in roughly equal shares, 80 percent of Russia's $4 billion in annual arms sales.) In India, Putin pushed an elaborate program of scientific and technical cooperation—150 projects in 17 sectors. Even in Cuba, a good deal of his visit was devoted

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to reinvigorating Russian participation in the Las Camaricas nickel-ore processing plant, two oil refineries, and the Juragua nuclear plant.

And so the story goes, whether with North or South Korea, Vietnam, or Canada. Nowhere is this emphasis on economics more evident than in Russia's expanding relations with Europe. Putin has met five times with German Chancellor Gerhard Schröder and attended four summits with the European Union (EU). During his meetings, no topics have been more central than debt and energy—not even national missile defense. Even a small breakthrough on the Northern Territories dispute at the April 2001 Irkutsk summit with the Japanese prime minister owed its inspiration to dreams of recharging Japanese investment.[3]

Putin's second foreign policy priority has been to continue Yeltsin's attention to Russia's nearest neighbors. He has traveled extensively in Uzbekistan, Ukraine, and Belarus and extended relations with all parts of the former Soviet Union. More than ever, the instrumentality is economic, although in Central Asia the Russians have also stressed security ties in the face of what Uzbek President Islam Karimov and other Central Asian leaders perceive as the threat from Islamic extremism.

It is not easy to trace the precise connection between official foreign policy and Russia's giant energy company Gazprom or its national electricity combine, RAO ESS. Yet there is little question that the less-than-gentle efforts of these and other Russian corporate interests to acquire large equity stakes in pipelines, refineries, power grids, and other strategically significant economic entities accord well with Putin's desire to increase Russia's influence throughout the post-Soviet space.

Outside the post-Soviet space, Putin has invested heavily in relations with both China and western Europe, with slightly more effort going into the latter. Should the Bush administration give a renewed push to economic relations between Russia and the United States after the pause of the last several years, Putin will respond enthusiastically, but Europe is still likely to capture more of his attention. China, however,

3 At that summit, Putin re-embraced the 1956 agreement by which Russia agreed to return two of the four islands that make up the Northern Territories: Shikotan and the Habomais. Because the 1956 agreement is predicated on the conclusion of a peace treaty (which would have to include a resolution of the full territorial issue), however, the two sides are still far from an agreement.

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far more than Europe, is central to a third tactical feature of Putin's foreign policy: the careful cultivation of common ground with Russia's like-minded interlocutors.

In communiqués and press conferences, Russian officials and their counterparts from India to Cuba tick off an impressive list of subjects on which they see eye to eye: the threat of terrorism and separatism, state sovereignty and the role of the U.N., the U.S. national missile defense threat and notions of strategic stability, how not to deal with what the United States used to call "rogue states," and, of course, NATO expansion. Beyond the public display of foreign policy "parallelism," however, the Russians have made only fleeting efforts to actually coordinate with more than one or two countries on any of these issues.

The final priority is one that Putin and his foreign minister stress on every occasion: Russia's new foreign policy pragmatism, by which they mean an intention to go about business in practical ways, curbing historical biases and ideological distractions. But this agnostic approach also has an operational context. As the official foreign policy strategy states, Russia will pursue an "optimal combination of effort along all vectors." Thus Putin has set about building relations simultaneously with China, Japan, the United States, Iran, Iraq, India, and Cuba—all pursued without contemplating the tradeoffs that such diversity will necessitate. It is a tactical attempt to have one's cake and eat it too—ultimately another manifestation of the puzzlement at the root of contemporary Russian foreign policy.

U.S. INERTIA

FACED WITH A RUSSIA that is a shell of its former superpower self and, worse, that is disoriented and unable to make clear choices, some argue that the United States would be wisest to go about more important tasks while leaving the Russians to collect themselves. Russian objections to U.S. policy initiatives, including the development of a national missile defense or a departure from parts of the arms control regime, should be ignored, they say, and Russian misbehavior punished. This can be done with impunity, the argument runs, because the Russians have few countermeasures in the immediate future, short of those certain to damage themselves far more than the Americans.

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An alternate approach calls for Washington to work diligently to ensure that Moscow makes the "right" choices: that it forswears imperial hopes and comes to respect the independence of its neighbors; that it recognizes the futility or, at a minimum, the dangers of attempting to build coalitions against the United States; and that it makes its peace with a modern, democratic Europe that is expanding institutionally to Russia's borders. Those who favor this approach would have the United States engage in ambitious, even aggressive initiatives designed to increase the economic and military independence of countries such as Uzbekistan, Azerbaijan, and Ukraine. They would move NATO eastward as swiftly and as far as possible. And although they would welcome Russia's reconciliation with the West, they want it to be on U.S. terms.

The proponents of this more active approach are bound to be disappointed. Nothing suggests that Washington or the American public is in a mood to embrace an ambitious policy toward Russia. The inertia leading the United States to disengage from the Russian problem in the last years of the Clinton administration, therefore, seems likely to continue.

The Bush administration inherited a policy of benign neglect: Russia is acknowledged, the lines of communication are kept open, and various cooperative projects are proffered as a sign of good intentions, but little effort is made to address the hard problems at the core of the relationship. It remains to be seen whether the new administration means to change this. The flashes of attention stirred by the summer and fall Bush-Putin encounters are the first test. Will the administration struggle with crafting an ambitious policy that coordinates the many dimensions of the U.S.-Russia relationship? Or, as the first steps suggest, is the United States more likely to concentrate on a national missile defense policy, a Caspian oil policy, or a policy toward rogue states, with each sphere containing a disembodied Russian angle?

If U.S.-Russia relations deteriorate further, the replacement for benign neglect is likely to be malign neglect, as the administration, pushed by Congress, looks distractedly and haphazardly for ways to discipline and punish Russia for perceived misdeeds. Washington's attention to the Russia challenge has been waning for reasons that advocates of the more ambitious approach rightly deplore. Russian

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weakness and the ambivalence of its leadership, many in the administration and Congress assume, take the United States off the hook. But correct as this perception of Russia's condition may be, it also risks being historically shortsighted. Russia could yet create serious, even grave, threats to U.S. interests in at least three areas.

First, an anchorless, insecure Russia, divorced from the West, will not be much help in stabilizing the edges of Europe. On the contrary, were things to go wrong in Ukraine, were Belarus' authoritarian regime to lose control, or were any of the unresolved conflicts from Nagorno-Karabakh to Transdniestr to re-ignite and escalate, an alienated Russia would likely be part of the problem.

Russia is no match for the United States in any region, save one—the post-Soviet space.

This raises the question of how hard the United States has worked to open a Western option for Russia. The dreamy talk in some circles of one day including Russia in NATO fools no one, least of all politicians in Moscow. Russia will not enter the West or develop a partnership with it via membership in Europe's major economic and security institutions. But neither will a thin membrane of ad hoc special arrangements suffice to give Moscow a stake in a constructive joint approach to major security challenges in the netherworld between Europe and Eurasia. Through bilateral contacts, EU summits, the NATO-Russia Permanent Joint Council, and even the G-8 group of industrialized nations, the United States and its allies should be engaging Russia to find ways to avoid destabilizing outcomes in Ukraine, Belarus, Moldova, and the Caucasus. This should not be a case of the great powers plotting over the heads of the locals but instead should be an exchange leading to concrete, complementary actions directed at eroding the sources of trouble. For example, some experts have suggested that Western generosity on Russia's 2003 debt crunch be constructively reciprocated by a comparable Russian generosity on Ukraine, Georgia, and others' crushing debt burdens. There are dozens of avenues along which Russia and the West can cooperate to make this critical, unattended part of Europe a safer place, from a coordinated policy toward Belarus' unreconstructed regime to enhanced multilateral security arrangements to aid settlements in the war-torn Caucasus

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Nothing of the sort is likely, however, if NATO expands in 2002 to include any of the Baltic states, let alone all of them. If President Bush's June speech in Warsaw suggested a decision has already been made, then it was a hasty decision, taken in a narrow rather than a broad context. Exercising restraint regarding NATO enlargement in the near term provides the only opportunity to enlist Russia in building a safer and more reassuring security regime for Ukraine, Belarus, Moldova, the Caucasus, and ultimately the Baltic states as well. By itself, exhibiting patience would not mean giving Russia a veto over NATO decisions. Such a veto would become a reality only if the West allowed Russia to insist on NATO's assurances before Russia proved its willingness to construct mutual security in Europe's forgotten half.

The second threat is an extended and more palpable version of the first. Today's Russia is no match for the United States in any part of the world, save one: the post-Soviet space. For some time, many within the Russian leadership have believed that U.S. initiatives toward the countries along Russia's southern border represent a concerted effort to outflank Russia and roll back its influence. So far, the Russian response has been spotty and half-hearted. Although the United States has no reason to accommodate paranoid fantasies, it is not in the U.S. interest to inadvertently, let alone intentionally, spark a strategic rivalry with Russia in Central Asia, the Caucasus, or among the threesome of Ukraine, Belarus, and Moldova.

Yet engineering "geographical pluralism" among the countries of the former Soviet Union simply invites adverse Russian reactions, when energy-transport options are chosen on the basis of short-term strategic calculations, and when Partnership for Peace military exercises are implicitly designed for Russian scenarios. As for bilateral relations, the United States has a legitimate interest in the continued independence and security of Ukraine, Georgia, Azerbaijan, and the other former Soviet states. But this objective is best pursued by convincing Russia that its security is best achieved by enhancing the security of its neighbors, and this will not happen unless the United States takes Russia's own security concerns seriously.

The third threat, improbable but no longer unthinkable, would arise if two or more of the major powers were to become alienated from the United States and then unite against it. Although for the moment

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neither China nor India—nor in fact Russia—has any desire to gang up on the United States, that situation could change. If the United States were to pursue an aggressive strategy of containment against China, Chinese leaders might well decide that economic cooperation was not worth the candle. If parts of Eurasia, including the Chinese borderlands, then descended into disorder, Beijing might look to collaborate with others capable of helping control the situation and ally itself with a Russia that had its own reasons for disregarding U.S. opinion and concerns. Apart from attending intelligently to U.S.-China relations and avoiding the casual alienation of Russia, therefore, the United States ought to think more about ways that it can, together with its European and Japanese allies, help diminish the danger of upheavals in inner Asia's great cauldrons, such as the Ferghana Valley, Xinjiang, and northwestern Kazakhstan.

Given the humble status of Russia and the "think small" attitude of the U.S. Congress, the executive branch, and much of the media, the prevailing mood in the United States is not likely to change any time soon. Nor are any of these threats likely to mature during the next three years. Thus, if the Bush administration chooses to carry on in the disengaged, scattered fashion of the moment, it can do so, and probably without regrets. Those will come further down the line.

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Japan, the Reluctant Reformer

Leonard J. Schoppa

TOO MUCH OF A BAD THING

AT THE END of last year, Japan's citizens, having struggled for years with a bitter recession, were hit with still more bad news: another arbiter of international opinion had forecast their country's imminent decline. In its *Global Trends 2015* report, the CIA predicted that, in view of China's ongoing rise, Japan "will have difficulty maintaining its current position as the world's third largest economy [after the United States and Europe]." Just a few months earlier, Japanese bonds had been demoted for the second consecutive time by Moody's, the U.S. credit-rating agency. After long enjoying Moody's highest rating, Japan's credit was now judged to be as risky as Portugal's.

Both stories made big news in Japan, as did the underlying problems that provoked such negative appraisals in the first place. Yet despite the widespread attention these economic woes received, the Japanese public remained strangely quiescent. This resignation has become a typical response to the ailing economy. Voters keep returning the long-dominant Liberal Democratic Party (LDP) to power, although it has presided over a decade of stagnant growth and sunk the government deep into debt. Japanese investors accept interest rates of less than one percent on their savings accounts, labor unions swallow pay cuts,

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and the business community watches meekly as the government's attempts to end the financial crisis fail to revive the nation's banks or alleviate the credit crunch.

Now Junichiro Koizumi, a "reformist" who became prime minister in April after the LDP elected him party leader, may finally break this pattern of resignation in the face of decline. But Koizumi's recent popularity should not be mistaken for a genuine, broad-based reform movement. The public appreciates the new prime minister's competence and openness, especially in contrast to the bungling and aloofness of his predecessor, Yoshiro Mori. And Koizumi has scored points by criticizing his party's habit of funneling subsidies to inefficient but well-connected sectors of the economy, such as public-works contractors. But public support for the kind of specific, painful reforms needed for Japan to turn its economy around remains only skin deep. Koizumi may manage to convert Japan's vague desire for change into the political capital he needs to overcome opposition within the LDP. But if instead he succumbs to the forces urging further delay, the Japanese public could just as quickly abandon him.

This points to a deeper question: Why have the Japanese put up with stagnation for so long? Why have they not demanded that their government do something to revive the economy and head off the national decline? After all, this is a society famous for facing dire challenges head-on. When American "black ships" forced Japan to accept unequal treaties in 1858, the country fought back by adopting reforms that catapulted it into the ranks of the great powers in less than 50 years. And after its devastating defeat in World War II, the country reinvented itself so effectively that just a few years ago it seemed poised to economically outpace the United States. What has happened this time? Where is the passion and energy that propelled Japan's earlier reform campaigns?

The answer lies, ironically, in Japan's very success. For the first time in the country's history, individuals and firms now have the wealth and freedom necessary to pursue private solutions to their economic problems—solutions that make perfect sense from an individual or corporate perspective but that actually aggravate economic problems at the national level. In the past, the Japanese were always too poor to pursue individual solutions to economic problems and thus relied

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on the state to harness their group efforts. Given this dependence on government, Japanese citizens had strong incentives to make their voices heard, ensuring that the state adopted wise policies that avoided debt and the kind of economic interventions that have now produced long-term inefficiency.

In the past, moreover, the self-help solutions available to struggling individuals and firms were much more constrained than they are today. International capital movement was tightly regulated, making it difficult to invest abroad. Conservative social norms limited career choices, especially for women, dictating that they eventually marry, leave their jobs, and have children. Today, however, highly educated Japanese women have the opportunity to hold well-paying jobs and to opt out of marriage altogether.

Thanks to today's greater freedoms and the financial ability to take advantage of them, the Japanese public has become more likely to try to escape the nation's problems rather than force the government to address them. The country's citizens seem convinced that it is better to use the "exit" option—that is, to try to improve their own lot individually—than to try to change government policy through political mobilization. Unfortunately, this trend has simply exacerbated economic problems at the national level, leaving the government with the huge task of paying off the massive government debt while trying to break the deflationary spiral and cope with low birth rates and a corresponding fall in the number of workers.

Now Koizumi has a chance to redirect the country's energies, helping Japanese citizens and companies make their complaints heard through the political process. But he will have to seize it quickly—for if Japan's leaders lose the confidence of their people yet again, the public is likely to turn to even more radical exit options, such as capital flight and emigration.

THE TROUBLES WITH TOKYO

From 1956 to 1973, the Japanese economy grew at the spectacular rate of almost 10 percent a year. This growth continued, at a still respectable 3.8 percent, until 1991. Since then, however, Japan has suffered two outright recessions and managed to expand its economy

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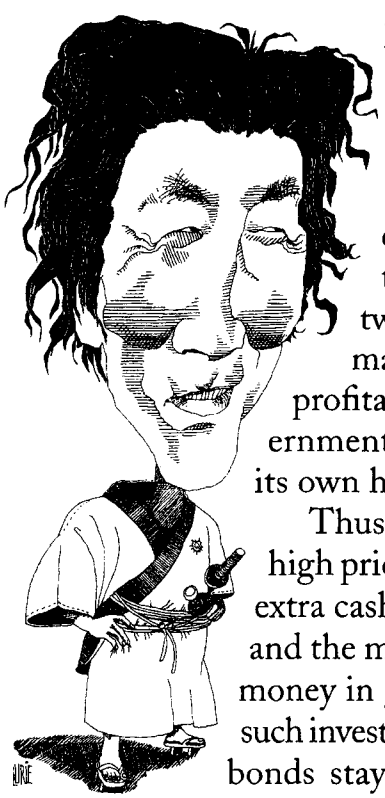
a paltry 0.96 percent a year. In an effort to propel the economy out of these doldrums, the government has nationalized and recapitalized banks, used government guarantees to keep credit flowing to small businesses, and piled one fiscal stimulus package on top of another—pushing the Japanese state's debt to ¥666 trillion ($5.6 trillion), or 130 percent of GDP. If things continue at the current rate, this debt ratio will reach an unprecedented 150 percent within the next three years—even if Koizumi fulfills his aim of capping new government bond issuance at "just" ¥30 trillion ($250 billion) a year.

Despite Tokyo's efforts and the massive outlay of cash, meanwhile, Japan's fundamental economic problems remain unaddressed. The country's banks still sit on bad loans totaling at least ¥32 trillion ($266 billion), with more credit going sour each year—despite the fact that the banks have already written off the equivalent of twice their entire capital base and reserves over the past decade. Nor do they seem to have learned any lessons: with a few exceptions, most Japanese banks still continue to extend new loans to debt-burdened companies, often in exchange for only modest restructuring plans. Propping up so many weak firms has delayed the sort of structural adjustment that the country needs to eliminate its surplus capacity and allow the strongest firms to grow. And by keeping alive "zombie" firms desperate to sell surplus product at any price, the banks have helped push prices down for two consecutive years—a development that makes it even more difficult for firms to become profitable again. This deflation also means the government cannot count on inflation to whittle away its own huge debt.



JUNICHIRO KOIZUMI

Thus far, Tokyo has managed to avoid paying a high price for its profligacy. The government gets the extra cash it needs from Japanese banks, life insurers, and the many individuals who still prefer to park their money in government securities. As a consequence of such investment, the interest rate on ten-year government bonds stayed near 1.75 percent last year and interest

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payments cost a manageable 26 percent of the central budget. Most government spending, however, has gone to keep inefficient public-works contractors on life support, even as the flow of cash from banks to small businesses—including the high-tech start-ups that hold the key to the nation's economic recovery—has slowed to a trickle.

To break its irresponsible spending habits, Japan needs to discipline the use of its economic resources. Public and private debt would not be such a problem, for example, if it were used to fund investments that would make the economy more efficient. But so far the returns on Japanese investments have been abysmally low by international standards, severely limiting the country's growth.

Assuring that its resources are invested productively is especially critical for Japan today because the nation faces a sharp decline in the size of its labor force and a sharp rise in the number of its elderly citizens. After growing steadily for five decades, Japan's working population has now begun to shrink, a few years ahead of 2007, when postwar baby boomers will begin to turn 60 and retire. Once they do, the country's working population will drop more quickly. In fact, the number of adults in the work force is expected to decline 13.3 percent by 2025. Increased immigration could slow this diminution. But the United Nations has estimated that Japan would have to absorb 700,000 new immigrants a year for the next 50 years to fully offset the shrinkage of its work force—a rate inconceivable for a country that has no history of accommodating newcomers. Japan thus seems destined to see its ratio of working-age adults to retirees worsen dramatically, from 4:1 today to just 2:1 in 2025.

No nation has ever aged this rapidly. Even the United States, for all its warnings about an impending Social Security and Medicare crunch, is expected to reach 2025 with 3.25 working-age adults for every retiree. Japan, on the other hand, is facing a true crisis. Pensions and medical expenses for the elderly could push the share of government and social-insurance spending in the economy from 40 percent today to more than 60 percent by 2025. Uncertainty about how Japan will finance this burden, given that its government is already deep in debt, was the major reason that both the CIA and Moody's painted such pessimistic pictures of the country's economic health.

To combat the imminent contraction of its working-age population, Japan should do everything it can to make it easier for the one group

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that has been underrepresented in its paid labor force—women with children—to continue working. Only half of working-age Japanese women currently hold paying jobs, and the proportion is even lower for mothers. Many of these women look at Japan's employment system—which offers limited child care, inadequate parental leave, inflexible schedules, and long hours—and choose work or children, not both. By taking themselves out of the labor force, however, those who opt to be full-time housewives deprive the economy of their paid labor, making it harder for Japan to finance the baby boomers' upcoming retirement. At the same time, those who choose work and put off or opt out of marriage and children contribute to the country's shrinking birth rate. Indeed, in 1999, the country's total fertility rate fell to 1.34 children per woman of child-bearing age, a record low. If Japan is to cope with the aging of its population, it needs many more women to choose both work and children. But creating the sort of environment that will allow them to do so will require expanded government programs and changes in the attitudes of employers, schools, and husbands—changes that most Japanese have not even begun to contemplate.

EYES WIDE SHUT

IN THE FACE of so many problems, it is tempting to attribute the passivity of the Japanese public to the complexity of the challenges they face or the fact that many of the economic consequences, although imminent, have yet to affect people's lives. Japan's unemployment rate remains below five percent—high for that country but far below the rates found in most industrialized nations. Job losses, moreover, have mostly affected older and younger workers, women, and those employed by small and medium-sized enterprises. The core male work force, employed by large firms and the state, remains protected by lifetime employment guarantees.

The problems Japan faces are indeed mind-numbingly complex. It is not hard to understand why Japanese citizens might hear each of the various woes described—including the size of the government's debt, low productivity growth, and the nation's rapid aging—and still fail to figure out how they fit together or what they imply for their own families' economic future.

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Yet the Japanese have been bombarded with economic analyses that make the personal implications of these problems quite clear. The Ministry of International Trade and Industry (MITI) has publicly predicted that if Japan retains its current policies, the nation's economy will grow at just 0.7 percent a year over the next ten years and shrink 0.2 percent a year between 2010 and 2025. Because paying for aging baby boomers will require an increase in taxes, MITI explained, real incomes will decline throughout the period, by 0.3 percent in the first ten years and by 2.2 percent yearly after that. Unless the government raises taxes and social security contribution rates or cuts benefits, Japan's debt could reach 200 percent of GDP in 2010 and 400 percent in 2025.

Meanwhile, the Japanese press has been doing its part to make the implications of these figures even more dramatic. On January 20, for example, the respected magazine *Toyo Keizai* featured a cover story headlined "A Chain of Bad Dreams"; an illustration showed a large bomb with a lit fuse and a ticking clock approaching the midnight hour. And news of this type seems to be sinking in. A 1998 government survey found that 73 percent of Japanese citizens over the age of 20 are concerned about their lives in old age, a sharp increase over similar polls conducted just a decade earlier. Another survey found that when working-age citizens are asked how confident they are in the future of the social security system, 60 percent answer "very worried."

HEADED FOR THE DOOR

IN THE PAST, when Japanese citizens faced equivalent worries—whether it was the challenge of the black ships or devastation in war—they turned to the state for help. They did not do so because they naturally submit to authority or love their bureaucrats. In fact, the nation has a long history of peasant rebellions and tax revolts. Even as many Europeans turned to their governments to nationalize entire sectors of the economy after World War II, there was never much support for such a strategy inside Japan, where industry remained in private hands.

Yet when Japan struggled to recover from the devastation of the war, its citizens found themselves forced to rely heavily on their government. Short of funds and technology, Japanese industry

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Cover story from Toyo Keizai, *a Japanese newsweekly, describing Japan's demographic time bomb, January 20, 2001*

needed the state's help in order to achieve the economies of scale that would allow it to compete in international markets. Tokyo was called on to provide necessary capital and to contribute indirectly by propping up a system of banks that could extend massive loans without worrying about bankruptcy. The state also helped out by regulating market entry and managing cartels so as to assure that leading firms in each sector were able to expand steadily without having to worry about excess capacity. By allowing the country to rapidly expand its production of energy, petrochemicals, steel, and other basic materials, the state thus laid the basis for the Japanese "miracle."

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In his pioneering work on how organizations respond to decline, the economist Albert Hirschman distinguished between pressures for change that stem from disgruntled clients going elsewhere ("exit") and those that come from clients making their grievances known and trying to work within the system ("voice"). Some organizations, such as firms operating in competitive markets, are designed to respond to exit pressures: when customers stop buying a company's products, profits start to fall and the market forces that company to improve or else go out of business. Other organizations, such as public school systems, have traditionally been designed to respond to voices, such as the input of concerned parents. When these latter organizations work well, as they do in most American suburban communities, they do so because local educational authorities have well-established channels of communication with parents, who have high expectations of their schools and keep those authorities informed about problems.

Thanks to their greater wealth, Japanese firms and individuals no longer rely on the state.

Because the organizational structure that Japan developed over the postwar years was built during a time when Japanese firms and individuals had few options other than to rely on the state, it was more similar to an ideal suburban school system than an ideal market. The state developed excellent channels of communication with business that were enhanced as retired bureaucrats took on top positions in firms and private industry associations helped implement policy. At the same time, corporations heavily dependent on state help had every incentive to keep channels of communication open from their end. What distinguished this system from planned economies elsewhere (and helped it avoid their inevitable fate) was the fact that firms remained in private hands. Needing to develop real competitive strengths, especially if they hoped to succeed in international markets, Japanese companies made sure government policy did not stray too far from the dictates of the market.

In time, however, Japanese industry became wealthy enough that many corporations no longer needed to depend on the state. Japan's most internationally competitive firms, such as Toyota and Sony, have for some years financed most of their investments out of retained

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earnings. They certainly do not need to rely on state financing, and they do not even depend on Japanese capital markets. When they need to raise external funds, they can turn to New York, London, or any number of other financial centers. This means that the most competitive segment of Japanese industry no longer has much incentive to make sure that the country's financial system remains efficient. Even if Japan's banking system seizes up, these firms can go abroad to raise the money they need.

Similarly, the liberalization of Japanese rules on capital exports and the increased globalization of Japanese firms have given rich companies additional opportunities to avoid problematic government policies. When labor-market regulations keep wages too high in Japan, rich Japanese firms can relocate their operations abroad. Likewise, when Tokyo's macroeconomic policies let domestic demand stagnate, Japanese corporations can still sell to booming markets elsewhere.

The wealth that has opened up new exit opportunities for Japan's industries has done the same thing for its citizens. Twenty years ago, few Japanese families had the resources to support their children once they reached working or marrying age. Young men left home as soon as possible and found a corporate job, whereas women married at a young age and went to live with their husbands. Social norms reinforced what was for many a financial necessity. In contrast, today many parents earn wages generous enough to support or subsidize adult children who remain at home. Fewer sons or daughters face financial pressure to marry, and some do not even feel much obligation to go to work. Social norms have changed too, with the Japanese becoming much more tolerant of women marrying later or not at all. These shifts have opened up previously nonexistent exit opportunities for young people who want to postpone or opt out of marriage or parenthood.

A RACE TO THE EXITS

THERE ARE obviously good reasons to welcome the greater wealth and freedom that allow Japanese individuals and firms more choices. Nevertheless, the increasing availability of exit options across a wide range of socioeconomic institutions has created problems for a system that has long been organized around the exercise of voice. As Hirschman

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warned, organizations designed to respond to voice typically perform poorly when confronted by exit. Public school systems, for example, typically pay little attention when parents start taking their children out and moving them to other districts or private schools. Those parents who leave tend to be those with the highest expectations, so their departure actually relieves harried bureaucrats of the hassle of responding. Over time, however, these organizations descend into mediocrity. As more and more parents with high expectations leave, schools are left with only the most complacent. Exit continues until the problems become so bad that radical action is required: perhaps a state takeover or even the introduction of a voucher system.

Since its "bubble economy" imploded a decade ago, Japan has been caught in just such a dynamic. Faced with a host of economic problems, most Japanese have responded by racing for the exits rather than by raising their voices. Large Japanese corporations have led the exodus. As early as 1986, Japanese firms were already raising more than half of their capital abroad. These corporations also began moving more of their operations outside the country. Since 1980, Japanese companies have gone from being among the least transnational to enjoying, according to economists Keith Cowling and Philip Tomlinson, "the highest rate of overseas physical investment in the world." Honda and Sony, among the most international of Japan's firms, now have approximately 60 percent of their physical assets abroad, and Toyota has 40 percent. All of these companies now manufacture more than half of their products overseas (or plan to do so soon) and rely on foreign markets for a substantial share of their sales.

With the most competitive of Japan's firms reducing their dependence on the Japanese market—not to mention Japanese capital, workers, parts, and services—it is no wonder that the government's economic policy has veered so far from what the market demands. Whereas Japanese firms once all found themselves in the same boat and so had every incentive to make sure that their collective ship did not sink, today the most competitive firms have their own boats. And they have allowed the remaining crew—the firms that cannot compete and that need the state to survive—to take control in Tokyo. These latter firms still participate in the system and exercise their "voices." But what such struggling corporations ask for is a bailout by the state,

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even though they have little prospect of returning to profitability and represent industries burdened with excess capacity.

Individual Japanese citizens planning for their retirement have also started to look for exits. Under the country's national pension system, Japanese who do not work can avoid paying into the program (although they are technically required to do so). An increasing number of such individuals—including a quarter of all Japanese in their twenties—have stopped contributing, doubting that the pension program will ever pay them back anything near what they would put into it. Such doubts are well founded. The news that corporate pension funds as a whole may be underfunded by up to ¥80 trillion (15 percent of GDP) has been widely reported, as have details of problems at specific firms. The national pension system for the self-employed and for dependent spouses suffers from huge unfunded liabilities as well.

In the face of such revelations, many Japanese have quietly begun to prepare for retirement by boosting their private savings. Such savings have increased steadily over the past several years. But with returns on ten-year government bonds (one of the most popular saving instruments) running at less than two percent, individuals have had to put away ever larger portions of every paycheck.

One would expect that Japanese pensioners and all those planning for their retirement would demand financial reforms to boost returns on their investments. After all, between 1990 and 1998, net interest payments—the money on which retirees and savers depend—fell from 8.5 percent of GDP to 4.4 percent. Instead of protesting, however, Japanese citizens have seemed content merely to make up for the lost interest income by saving even more—although some have begun to exit from the problematic situation by shifting their funds into dollar accounts that pay much higher interest rates.

The final group that has chosen to exit the system rather than rise up in protest has been young women. Most Japanese women continue to tell pollsters that they want to marry and have at least two children. Many young women also report that they enjoy working and earning their own incomes. Faced with an environment that makes it very difficult to combine career with family, however, most of these women end up choosing between the two options

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rather than fighting for the kind of far-reaching social and political changes that would make combining them more practical.

The increase in Japanese family wealth has enabled more and more women, as well as their potential husbands, to remain single and continue living with their parents. But this trend, combined with an increase in the number of women who ultimately choose a career over marriage, has caused the proportion of women in their late twenties who have never married to surge from just 18 percent in 1970 to 48 percent in 1995 (the most recent year for which statistics are available). The proportion of never-marrieds in their thirties also increased sharply, with 20 percent of women in their early thirties remaining unmarried in 1995.

This trend toward delaying or opting out of marriage altogether is the main reason fertility rates are now so low in Japan. Although the government's population projections continue to assume that fertility will recover, some Japanese researchers point to Tokyo's extremely low fertility rate—only one child per woman of child-bearing age—and predict that it is just a matter of time before the national rate drops that low. If it does, Japan will have even more difficulty financing the upcoming retirement of its baby boomers.

THE KOIZUMI QUESTION

JUST AS the departure of insistent parents from public schools can speed such systems' decline, the uncoordinated exit of Japanese firms and individuals has only made the nation's long-term economic problems worse. Decisions by Honda and Sony to locate their high-return investment projects abroad end up channeling Japanese capital into much less efficient investments. Similarly, by increasing their private savings to make up for possible cuts in pension benefits, individual Japanese have made it more difficult for the government to get the economy back on track by boosting consumption. Finally, by deciding to leave the work force or delay marriage, Japanese women have made it even more difficult to manage the country's looming demographic crunch.

Were any of these trends occurring in isolation, Japan might be able to wait for them to reach crisis proportions and prompt radical solutions. In fact, however, the problems are intertwined. As further

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decline in the fertility rate increases worries about the stability of the pension system, individuals desperately try to save even more and spend less. As the nation's most competitive firms invest more abroad, the rate of return on capital invested with those firms that remain drops even lower. Both of these trends make it even more difficult for the government to keep the economy afloat, increasing the likelihood of a bond-market crash and hyperinflation. The fear of such a possibility leads firms, individual investors, and women to look for more radical exit solutions, such as capital flight and emigration.

Only one path leads out of this exit spiral. Japan's political leaders must inspire the country's citizens to redirect their energies inward, toward domestic reform. So far such inspiration has been conspicuously absent. Japan's bureaucrats have lost the public's confidence by mismanaging the economy for a decade. And because real reform will be painful, generating bankruptcies, job insecurity, and difficult changes in gender roles, few politicians have dared to suggest it.

Enter Koizumi, who promised to buck this trend. Campaigning for the job of LDP party leader in April, Koizumi announced his support for "structural reform with no sacred cows." He warned the public to prepare for up to two years of slow or even negative growth. Koizumi promised to cap the creation of new government debt and to push the banks into disposing of their bad loans within two or three years—steps that, if carried out faithfully, will cut off the life-support system that has allowed weak firms and inefficient sectors to avoid painful restructuring. In his first weeks in office, the prime minister also promised to eliminate waiting lists for child care to enable more women to combine careers and motherhood. Such reforms have made him wildly popular with the general public, earning him approval ratings as high as 87 percent.

Koizumi knows, however, that it is easier to call for reform than to push it through. He became prime minister on the strength of his popularity with the public, not his support in parliament. Many LDP members of the Diet remain unenthusiastic about Koizumi's proposed reforms, which would hurt their supporters in the inefficient construction industry and other protected sectors of the economy. Having used him to improve the party's electoral chances in the upper house, these LDP "traditionalists"—many of them in the long-dominant

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Hashimoto faction that has been marginalized since Koizumi took over—are likely to use every opportunity to delay and sabotage his initiatives. To avoid this risk, Koizumi may have to create an open split in the party, calling an early election for the lower house and allowing only those who support him to run under the LDP banner.

This tactic would be risky. The public may heed Koizumi's call to arms and answer his request—made during a campaign commercial—for help in wedging a lever under the giant rock of Japan's status quo. If real reforms restore public trust in the pension system, give young couples enough confidence in their financial security to risk marrying and having children, and convince leading firms to reinvest in the country, then the nation may finally escape its economic doldrums.

But if Japanese voters come to feel that their trust has been betrayed and that they were fooled into returning to power a party that cannot cut its ties to protected interests, the backlash could be severe. Japan's citizens will return to exit strategies with renewed vigor. The country will still need to change its ways eventually, since Japan cannot go on adding $250 billion a year to its government debt while experiencing deflation. But exit-driven reform would be the most painful option, far more wrenching than the alternative available now: restoring public trust in Tokyo's ability to safeguard its economy and look after its own citizens.

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With a Friend Like Fox

Robert S. Leiken

AN END TO ISOLATION

THIS PAST APRIL, Senator Jesse Helms (R-N.C.)—long Mexico's fiercest critic and a man not known for his internationalist credentials—took an unusual trip. Helms went to Mexico City with colleagues in tow, where he convened the first-ever meeting of the Senate Foreign Relations Committee on foreign soil. The death of one-party rule in Mexico, Helms declared, had initiated "a new era of cooperation [with the United States] on matters such as immigration, drugs, trade, and the promotion of human rights in Cuba."

The senators' visit and the language that accompanied it would have been inconceivable barely a year ago—as would have Helms' fast friendship with Mexico's new foreign minister, a self-proclaimed "man of the left" named Jorge Castañeda. For decades, the U.S.-Mexico relationship was a wary one, characterized by mutual distrust and only reluctant cooperation. But that is now changing. With the advent of democratic government, Mexico is turning its back on its history of isolationism and its fiercely noninterventionist foreign policy. The country has begun to look beyond its borders, trying to spur development and help resolve problems throughout Latin America while pursuing a robust partnership with the United States—a neighbor with which Mexico was once at odds on nearly every issue.

The opportunities this turnaround presents have not been lost on Washington. President George W. Bush, comfortable with Mexico from his days as Texas governor and eager to court the burgeoning

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Latino vote, has declared his desire for a "special relationship" between the two countries. To this end, shortly after taking office Bush broke with tradition by choosing Mexico for his first foreign visit. In his first months as president, Bush met with a string of Latin American leaders and traveled to Québec City to promote hemispheric free trade. While there, he also announced that Mexican President Vicente Fox would be the first foreign leader to make a state visit to the Bush White House.

When they met in February at Fox's ranch in San Cristobal, Mexico, the two men created an unprecedented top-level working group on migration headed by Castañeda and Minister of Government Santiago Creel along with Secretary of State Colin Powell and Attorney General John Ashcroft. Bush also uttered words that were music to Mexican ears, acknowledging that the two countries' mutual drug problem derived from U.S. demand.

The meeting, on which Mexico had pinned its hopes for reintroducing itself to the world, was overshadowed by the U.S. bombing of Iraq the same day. But unlike the Mexican news media, which denounced the bombing, Mexico's Foreign Office declared its empathy for Bush's "global responsibilities" and actually blessed the American attack.

This gesture was the most striking aspect of the entire encounter, and it testifies to the revolutionary nature of the new foreign policy emanating from Mexico City. Mexico's decision to start actively collaborating with the United States will have powerful ramifications throughout the Americas, especially in the troubled Andean region. And it may forever change Mexico's place in the world.

CRAZY LIKE A FOX

IN THE WEEKS after pulling off his shocking election upset on July 2, 2000, Fox hopscotched around the hemisphere, first visiting the Southern Cone, where he emphasized that his friendliness with Washington would not stand in the way of an active Latin American diplomacy; then travelling to Montréal and to Washington, D.C., where he called for open U.S.-Mexican borders; then to Central America, where he unveiled a plan to link the region with southern Mexico via superhighways, railways, airports, pipelines, and an electric-power grid; and then to the Andes, where he launched a coalition effort

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AP/WIDE WORLD PHOTOS

Three amigos: Mexican President Vicente Fox with Venezuela's Hugo Chávez and Colombia's Andrés Pastrana, Caracas, Venezuela, April 8, 2001

to combat drug cartels. Fox visited Colombia twice, naming a special envoy to engage that country's warring camps. And in December, he used his inaugural celebrations to sooth tensions between Colombia's president, Andrés Pastrana, and Venezuela's Hugo Chávez, which had been strained by the spread of Colombia's leftist insurgency and Chávez's overtures to the Colombian guerrillas.

Fox's regional diplomacy dovetailed with his ongoing campaign to win Mexico the Latin American seat on the U.N. Security Council in 2002. In the past, although it joined with developing-world majorities in the General Assembly to promote North-South dialogue and condemn Zionism as racism (following the lead of Arab countries), Mexico did not even bother to compete in Security Council elections on the grounds that the body was dominated by Washington.

The day after his inauguration, Fox signed an agreement with the U.N. High Commissioner for Human Rights to train Mexican human rights monitors for domestic service. A month later, Mexico dropped its steadfast objections to U.N. peacekeeping operations and

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pledged future participation. These gestures provided early hints that the Fox administration was in the process of revising the foreign policy scriptures of the Mexican Revolution. For the 71 years it was dominated by the Institutional Revolutionary Party (PRI), Mexico had championed an expansive and stern view of national sovereignty and nonintervention. Under that doctrine, Mexico led opposition to U.S. interventions in Guatemala, the Dominican Republic, Grenada, and Panama; supported the socialist government of Salvador Allende in Chile; and became communist Cuba's staunchest backer in the western hemisphere.

In March, however, at a meeting of the U.N. Human Rights Commission in Geneva, Castañeda renounced the central tenet of Mexico's anti-interventionist doctrine: the supremacy of national sovereignty. "The exercise of sovereignty," Castañeda said, "cannot be used as an excuse to justify any violation of rights. ... Human rights constitute values that are both absolute and universal." Abuses in any nation are therefore a legitimate concern of the international community, he declared. Furthermore, he insisted that promoting respect for human rights is incumbent on all nations and "cannot be contingent upon the will of a single government." This wholesale revision of Mexican foreign policy doctrine came in the course of a campaign by Mexico to persuade Latin American countries to condemn Cuban human rights violations at the U.N. commission. The debate left Castañeda—a former communist—and the Cuban foreign minister trading insults.

The "moral authority" for Mexico's new activist foreign policy, Castañeda has stressed, derives from the country's decision to overthrow one-party rule. The July 2000 elections signified not just a change in government, but a shift from an authoritarian to a democratic regime—one that has promised to honor human rights at home and abroad.

SEEDS OF CHANGE

IT WOULD BE misleading to depict Fox's election as a sudden break with a rotten past. Mexico's ongoing transition to free markets and democracy is notable for its length and its many parents: leftists in the 1968 student movement; conservative opposition reformers from

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Fox's National Action Party (PAN), who began winning local elections in 1983; and a technocratic elite within the dominant PRI. Without the reforms put in place by the last PRI president, Ernesto Zedillo, Fox would never have been able to win in the first place.

Once the transition began, closer relations with the United States followed inexorably. After suffering a debt crisis in 1982, Mexico decided to dig itself out of its financial hole by making its exports competitive. Successive administrations curbed inflation, sharply reduced the public deficit, joined the General Agreement on Tariffs and Trade (now the World Trade Organization), slashed tariffs, deregulated key sectors of the economy, privatized much of the public sector, and put Mexico on a taut fiscal leash. These changes all helped shift Mexico's economic orientation northward. After making fruitless attempts to interest Western European countries (which were too focused on Eastern Europe) and Japan (which turned out to be preoccupied with its Asian neighbors), President Carlos Salinas (1988–94) recognized that Mexico's economic future lay with the United States. Mexico discovered that, under the pressure of globalization, the post–Cold War world was dividing into regional economic blocs. The United States, long a feared colossus of the North, beckoned.

Salinas wanted to keep the PRI in power to carry out his economic modernization program. But that meant combining an open economy with a closed political system, something that could not be managed in a country neighboring and courting the United States—as Salinas' envoys learned while lobbying the U.S. Congress for passage of the North American Free Trade Agreement (NAFTA). Not only did that lobbying begin to erode Mexico's doctrine of absolute nonintervention, but Mexico also had to acquiesce to being lobbied in turn. Soon Mexican political reformers found friends among U.S. human rights groups and Mexican-American associations, and the U.S. media started shining a spotlight on Mexican elections. Even American legislators with little in common with such "Mexico bashers" as Senator Helms began lecturing Mexico that free trade is a club for democracies only.

On January 1, 1994, the day NAFTA went into effect, Zapatista guerrillas opened fire in the southern Mexican state of Chiapas. The rebels were to prove reluctant warriors but ingenious spinners, and they quickly became international media darlings. Government supporters

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brandished the doctrine of nonintervention at the rebels' sympathizers as well as at human rights monitors, foreign journalists, and election observers, insisting that the rights of indigenous communities, electoral irregularities, and official impunity were internal matters. But democratic reformers rejoined that the revolution's doctrine of nonintervention had been perverted. Formulated to defend change in a weak country, it had become a shield for the oppressive PRI system.

Another factor that helped tip the scales was the fact that, with the end of the Cold War, Mexico had lost much of its geopolitical cachet. No longer was Mexican stability so vital that Washington would overlook the nature of its neighbor's regime. Mexico quickly became a target for criticisms from the American right, which worried about drug traffic, and the American left, which worried about human rights. The shield of nonintervention began showing more holes than a chain-link fence.

And on July 2, 2000, that fence collapsed. After producing decades of headlines about civilian massacres, currency devaluations, corruption scandals, and drug trafficking, Mexico suddenly became the first international feel-good story of the new millennium. The outspoken, strapping, six-foot-four Fox could not have presented a starker contrast with the dark, brooding Mexican depicted in countless American films. In his cowboy boots, the new Mexican president looked like an archetypal Western hero.

Within weeks, Castañeda came to Washington to cash in a "democratic dividend," declaring that with a freely elected government, Mexico "no longer had anything to be ashamed of." Noninterventionism was abandoned. Zapatista sympathizers, human rights observers, election monitors, and journalists would be welcomed into the country. U.S. officials were invited to run security checks on Mexican drug enforcement agents. "Go ahead, expose my faults," Mexico appeared to say. "That will only help me change."

REWRITING HISTORY

IN MEXICAN CIRCLES TODAY the troubled Andes region evokes memories of the Central American civil wars of the 1980s. But now the revolutionary government is located in Venezuela, not Sandinista

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Nicaragua, and the neighboring civil war is being fought in Colombia, not El Salvador. Still, the problems are alarming. Chávez has scorned representative democracy, cornered political power, befriended Fidel Castro, paid court to Mu'ammar Qaddafi and Saddam Hussein, and called China "the big sister of the Venezuelan revolution." Last year, without bothering to inform the Colombian government, Chávez sent an envoy to hold seven meetings with the Colombian rebels. Ecuador, Panama, and Brazil now worry that the Colombian war could spill into their territories. The U.S.-led military and economic aid package known as "Plan Colombia" has relieved these fears for some but heightened them for others.

Enter Fox, whose Andean diplomacy illustrates how far Mexico has come since wars ravaged Central America less than two decades ago. In those days, Mexico was the Sandinistas' key regional backer and helped keep their regime afloat with emergency oil supplies. And it was in this context that Castañeda, when his father was foreign minister, took his first try at diplomacy. In 1982, the younger Castañeda engineered an agreement on El Salvador between Mexico and France, whereby the latter two recognized the guerrillas and pressed for power-sharing negotiations. The guerrillas were allowed to use Mexico City as a diplomatic and media headquarters and met frequently with the Castañedas to plot their diplomatic strategy. The Salvadoran government and Washington were outraged.

Today, the Revolutionary Armed Forces of Colombia (FARC) also maintains an office in Mexico City. The analogy stops there, however. Fox has informed the guerrillas that they will wear out their welcome if they fail to pursue Pastrana's peace plan. Fox has also declared "unconditional support" for Plan Colombia, rallying hemispheric and European backing for the effort. Not on speaking terms when Fox took office, Chávez and Pastrana have now met several times at Fox's behest. Chávez has even consented to join the group of "friendly nations" (also including Canada, Cuba, France, Italy, Mexico, Norway, Spain, Sweden, and Switzerland) supporting the peace talks.

Fox has also persuaded Chávez and Pastrana to revive the "G-3" group, which links Latin America's three major oil exporters. Established to supply oil to Central America as part of the effort to mediate conflicts in the region, the G-3 will now use discount oil to ease

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Andean frictions. Worried by Pastrana's declining popularity and the growth of right-wing paramilitaries in Colombia, Mexico hopes to see the peace process institutionalized by the time of Colombia's elections next year.

During the 1980s, the danger of Soviet encroachment in Central America concerned U.S. policymakers, although it did not much worry the Mexicans. Today there is no extrahemispheric threat in the Andes. But Mexico and the United States are both concerned with the unholy alliance between drug traffickers and guerrillas there. Two-thirds of U.S.-bound Colombian cocaine bribes its way through Mexico, and Fox fears that drug money will thwart his efforts to control corruption and crime.

Out of this mutual concern, the Fox and Bush administrations have developed a "good-cop, bad-cop" routine for the Andes. Mexico keeps its distance from the military facets of Plan Colombia but rallies diplomatic support for the peace process. Among Andean heads of state, Mexico's influence has been enhanced by Fox's intimacy with Bush. But Mexico has considerable clout in Latin America in its own right and can influence Chávez and the Colombian guerrillas in ways that the United States cannot.

BETWEEN FRIENDS

FOR ALL ITS WILLINGNESS to cooperate, Mexico does not approach the United States on bended knee; it is neither a surrogate nor a subsidiary. And Mexico's new opening to its northern neighbor reflects not dependency but maturity. Mexico can now pursue its own interests whether or not they coincide with those of the United States.

Still, differences persist, and Cuba remains one of them. Bush is firmly committed to the Cuban embargo. Despite its recent criticism of Castro, however, Mexico continues to promote investment, trade, and tourism with the island, where it has a variety of business interests. And Havana maintains powerful friends in Mexico City; before Mexico abstained from an April vote at the U.N. Human Rights Commission condemning Cuba, the Mexican Congress passed a resolution on Cuba's behalf. This setback to Casteñeda demonstrated the ongoing strength of Cuban-Mexican ties, as well as the new power

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that Mexico's legislature is starting to wield as the country moves toward a separation of powers.

The Free Trade Area of the Americas (FTAA), a project dear to Bush, may become another source of disagreement. Mexico is reluctant to share its privileged access to the vast North American market with 31 competitors. So far, Fox has publicly supported the FTAA, but he has not lobbied for it in Latin America, where Brazil and Venezuela remain strongly opposed to the idea. And it remains unclear whether Fox will try to coax these countries into the accord.

Instead of a hemisphere-wide trade pact, Fox prefers to talk about an enhanced "NAFTA plus," what he calls "opening the border[s] to [Mexican] labor as well as goods." Fox recognizes that this will not happen until Mexican wages approach those of its more developed partners, decreasing the risk of mass migration. But there is no telling how long that will take. In the meantime, emigration remains an economic and political safety valve for any Mexican government and thus a very sensitive issue between Mexico and the United States.

Indeed, engaging Washington on migration has been one of Fox's top priorities. Mexico's president seeks improved border safety, a new guest-worker program, more permanent visas, and the "regularization" of Mexican illegal immigrants in the United States. Last year's U.S. census figures suggest that illegal immigrants from Mexico may number more than 5 million. Immigration critics in the United States oppose the granting of amnesty, which would be the first step toward permanent residency and citizenship, to people who have broken U.S. laws by entering the country without permission. But "regularization," as Fox has proposed, would sidestep that fight by ensuring only basic health, education, and labor rights for illegal Mexican immigrants. They would then be able to join unions, rent apartments, obtain drivers' licenses, and work without the threat of deportation.

Fox's proposal would put Mexican immigrants in a special category. But is the United States prepared to give Mexicans special standing? And is it prepared for the complaints and petitions that would follow from other countries—many of which the Bush administration hopes to incorporate into the FTAA?

Whatever the answer, the fact is that Mexico already occupies a special category. The United States and Mexico have quietly become

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integrated to a degree that would surprise those who live outside of the American Southwest. The Bush-Fox intimacy transcends personal chemistry and reflects the structural convergence of their two countries, a marriage stemming from economics, demographics, and politics.

Mexico has already become the United States' second-largest trading partner, and many analysts predict it will overtake Canada within a decade. NAFTA has become a fact of life that no major party on either side of the border seeks to reverse. Mexico is now the top export market for the two most populous American states, California and Texas. Meanwhile, fully one-third of Mexico's $500 billion GNP was derived from exports last year, with 88 percent of those going to the United States. Exports account for half of the more than three million Mexican jobs created since NAFTA took hold. Even dirt-poor Chiapas has opened trade offices in Texas.

NAFTA compelled leading Mexican corporations to stay competitive by raising the quality of their merchandise and marketing to world levels, although some labor and environmental practices have remained subpar. As a result, Mexico climbed from being the world's 26th largest exporter in 1993 to the 8th largest in 1999, and it is on track to soon pull ahead of South Korea, Taiwan, and Hong Kong.

NAFTA has also locked Mexico into the U.S. economy, making it virtually impossible for the country to revert to its protectionist past. *Maquiladoras,* plants that assemble materials for duty-free export, have spread southward into the interior of Mexico, nearly to the Guatemalan border. No longer assembling only low-tech goods, these factories now produce on contract for the most advanced sectors of the U.S. information industry. Meanwhile, electric grids and natural gas pipelines now connect the two countries. Indeed, by the end of this year Mexico will supply 200 megawatts of energy a day to California, enough to serve 200,000 homes. Eventually Mexico could make a substantial contribution to solving California's energy crisis, although for that to happen Fox must reform his country's notoriously inefficient and corrupt state-run energy sector.

The 2,000-mile-long border between the United States and Mexico is already the world's most heavily trafficked. In March, representatives from Texas and eight Mexican states discussed a plan to build new roads linking present and future border crossings with inland cities.

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Other large cities, such as El Paso, Laredo, and McAllen, Texas, and Agua Prieta, Ciudad Juárez, and Mexicali, Mexico, are increasingly joined in common projects and are booming on both sides of the border. A "technology and education partnership" has been established that connects all major California universities to dozens of campuses in Mexico via high-speed Internet links.

Having expanded continuously for six decades—during which the typical Mexican immigrant turned from a sojourner into a settler—migration from Mexico to the United States has now become institutionalized. Networks of relatives and friends of emigrants have spread into virtually every part of Mexico, making immigration to the United States relatively impervious to changes in government policy or the economy. The approximately 400,000 Mexicans who settle in the United States annually have formed large concentrations in California, Texas, Arizona, and other southwestern states. But there are also a million Mexicans in the Chicago area. Last year's census confirmed that communities of Mexican workers have mushroomed in such distant states as North Carolina, Georgia, Nebraska, and New York.

As a result of such movement, today three out of every five Latinos in the United States are of Mexican origin, and American Latinos, at 35 million, have already overtaken African Americans as the country's largest minority. Probably more than half a dozen new Latino legislators will emerge from congressional redistricting by 2002 in accordance with the new census. And presidential campaigns will increasingly focus on Latino voters, who are concentrated in the electorally rich states of California, Texas, Illinois, New York, and Florida.

Mexico's political system has also moved closer to the U.S. system. Much like Mexico's Congress, the Mexican Supreme Court has recently gained independence and new leverage over the executive. Governors and mayors have also won a degree of autonomy from the federal government hardly imaginable in the heyday of the PRI's centralized reign. And Fox's victory demonstrated the recent consolidation of the independent media and of civil society in Mexico. U.S. and Mexican nongovernmental organizations (NGOs) now collaborate on issues such as the environment, health and safety, business, labor, human rights, and democracy. Mexican immigrants living in the United States send both dollars (as much as an estimated $10 billion this year)

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and an American public sensibility—including demands for American-style accountability—back home to local villages.

Although Mexico today still grapples with the painful memory of many years of often unjust treatment at the hands of United States, members of the Mexican political class, as well as most ordinary citizens, have accepted the idea that their future lies to the north. Many welcome this fact—and not just the majority of those Mexicans who have relatives in the United States. As the Fox government invites U.S. officials, NGOs, and the American media to assist in the massive developmental, institutional, and cultural tasks facing Mexico, this relationship will only grow stronger.

A RUSSIA ON THE RIO GRANDE?

MANY OBSERVERS still wonder whether Fox's ambitions will prove quixotic. Will the human rights watchdogs in Rome and San Francisco who currently bombard Mexican embassies and consulates with faxes and postcards criticizing various abuses find the patience Fox will need as he takes on the country's many ingrained problems? Will Fox himself, who faces an opposition majority in the Congress, succeed in outflanking the beneficiaries of the old patronage system? Among the dizzying array of objectives the Fox government has set for itself are peace in Chiapas, war "to the death" against the drug lords and organized crime, overcoming corruption, reforming the constitution, modernizing the tax and fiscal systems, opening up the energy sector, combating poverty, improving education, and restructuring the country's migration and foreign policies. Now, with the weakening of the U.S. economy, Fox must launch these campaigns amid a slump. Indeed, in his first few months in office, Fox succeeded in putting his stamp only on foreign policy; his other initiatives, such as the Chiapas peace plan and tax reform, have bogged down.

Fox's Mexico presents a familiar picture in the post–Cold War age: like Russia, it is a democracy without the rule of law. In the early twentieth century, autocracies in both countries were toppled almost simultaneously by violent revolution. Over the ensuing years, highly centralized one-party regimes ruled both Russia and Mexico. And each has now become, via a different route, an electoral democracy that

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must cope with immense stresses: entrenched corruption, authoritarian traditions, political gridlock, recurrent financial crises, centrifugal tensions, and the depredations of a criminal underworld drawn in part from the old ruling apparatus. Mexico's crime wave, appalling in Mexico City, Guadalajara, and along the border, is generally less highly organized than Russia's. But Fox must contend with powerful drug cartels feeding the enormous U.S. market.

Could Vicente Fox prove another Boris Yeltsin, a magnet for the hopes of his compatriots and Washington but incapable of building institutions or consolidating democratic gains? The commitment by much of Mexico's political class to push for reform and integration with the United States will work in Fox's favor. So will the links that have been forged between ordinary Mexicans and the United States through migration, travel, and the media.

Moreover, Fox's recent overtures to the United States stand in sharp contrast to Russian President Vladimir Putin's attempts to block international human rights monitors and to stifle the press. Fox has invited U.S. government agencies (such as the FBI) and NGOs to help Mexico move toward the rule of law by enhancing the protection of human and property rights, creating an independent and impartial judiciary, establishing effective law enforcement that itself obeys the law, and providing transparency in the conduct of government. Mexico's national security adviser, Adolfo Aguilar Zinser—who crusaded against PRI corruption as a legislator and now coordinates Fox's governance and law-enforcement policies—has gone so far as to publicly invite U.S. officials to vet Mexican drug agents. "If I belonged to the FBI," volunteered Aguilar Zinser, "I would not trust the Mexican police." Such candor instills confidence.

FRIENDS IN DEED

WASHINGTON'S new partnership with Mexico City offers Bush a chance to combine the realism of Richard Nixon with the idealism of Woodrow Wilson. Nixon's foreign policy relied heavily on strategic alliances with regional powers. But those powers tended to be tyrannies, like General Nguyen Van Thieu's South Vietnam and the Shah's Iran, and thus such policies led to a clash with America's democratic

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values and caused problems at home. Mexico, on the other hand, is now the hemisphere's key democratic experiment, one rapidly converging with the United States. Supporting Fox's Mexico is one way to promote a foreign policy that stresses democracy. Yet it also offers tremendous practical advantages to Washington, providing it a key Latin American ally and one unlikely to embarrass it through authoritarian excesses.

Much of Latin America has yet to enjoy the economic rewards that Washington promised liberalization would bring. Now the U.S. economic downturn will delay those benefits even further. Such delays are one reason why leftist populists and authoritarians are staging comebacks in Brazil and Nicaragua. Should they prevail, they may be tempted to team up with Chávez, Castro, and the Colombian guerrillas to form a radical alliance that could shift the balance of power in Latin America, dooming the FTAA, the Colombian peace process, and Washington's drug war while reversing democratic advances.

If that temptation arises, Latin American democrats can now offer a new response. The region today faces a choice. On the one hand, it could opt for authoritarianism, statism, and narco-terrorism; on the other, it could follow not the American way—with its imperialist overtones—but the new Mexican path. The burgeoning partnership with Mexico will thus greatly strengthen Washington's hand—especially if it means that that hand need not be played in the first place.

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The Corporate Ethics Crusade

Ethan B. Kapstein

THE BEST INTENTIONS

ARE MULTINATIONAL ENTERPRISES getting religion? So it seems. Around the world, corporate codes of conduct on human rights, labor standards, and environmental performance are proliferating. These codes reflect the growing pressure being placed on firms by nongovernmental organizations (NGOs), activist shareholders, and the portfolio managers of "socially responsible" investment funds. A veritable corporate ethics crusade has been launched, and it has been surprisingly successful in forcing executives to take its concerns into account.

But ample reason exists for raising some red flags about this movement. The major parties involved—multinational firms and NGOs in industrialized nations—are beginning to forge a symbiotic relationship that could actually harm the least powerful actors in the world economy, including developing countries, small and medium-sized enterprises, and the poor everywhere.

Consider the linkage of labor and environmental standards to multilateral trade agreements. Improving working conditions and air and water quality are laudable goals, and firms should do so whenever it is economically and technically feasible. NGOs can usefully contribute to that process by providing governments and firms with information,

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advice, and policy alternatives. But forcing the standards of industrialized nations on developing countries and the firms that operate in them could backfire by reducing investment and job creation. More workers would be chased into the informal economy, which has even lower standards, if any at all.

Activists who wish to establish ethical codes need to reconcile their aspirations with the fact that most nations do not generally share common laws or regulations on labor rights and the environment. Differing levels of wealth explain much of this divergence, but the peculiarities of political systems and social organizations have also left their normative footprint. The ethics crusade represents, in effect, an attempt by one group to impose its values on other groups. Far from making economic relations more harmonious, that effort could lead to greater conflict.

Consider the International Labor Organization's core labor standard that recognizes freedom of association. What does that imply as a universal rule? National laws regulating unionization vary enormously from country to country. Even among advanced industrialized democracies, the relative political and economic standing of unions differs significantly; in Germany, for example, they are much more powerful than in the United States. Furthermore, outside intervention to promote unionization in developing countries could have the perverse effect of increasing existing levels of income inequality, as those outside the collective bargaining framework get left behind.

The global debate over corporate ethics therefore needs some rules of engagement. The obvious starting point is that companies ought to abide by the laws of the land where they do business. But these laws are often too weak to protect workers and the environment, and this weakness opens the door to legitimate disputes over interpretation and enforcement. When profound differences arise over corporate social responsibility in such areas, the parties involved should set out the advantages and disadvantages associated with adopting higher standards before declaring any proposed policy solution to be the obvious best choice. That sort of analysis has been woefully absent, and instead we are witnessing the rise of ethics by intimidation.

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DO THE RIGHT THING

THE ROOTS of today's corporate ethics crusade go back to 1989. At the end of the Cold War, democratization and economic liberalization converged on a global scale. Democratization was accompanied by a renewed focus on freedom and human rights, and economic liberalization promised to turn any economic frog into a spry and wealthy prince. Together, they offered a better life for billions of people around the world.

By the mid-1990s, however, this hopeful vision was dissolving like a fading mirage. Even in those countries that sought to apply the "Washington consensus" formula of fiscal stabilization and open markets, the benefits of these policies seemed questionable at best. Many people sought villains and found them in multinational corporations, along with the international organizations, such as the World Trade Organization (WTO), that served as their lackeys. These giant firms appeared to drive economic outcomes more than any government could. They could flee countries with high tax rates, undermining those governments' fiscal bases and igniting a feverish "race to the bottom" among countries desperate for investment dollars. And despite their rhetoric of free-market competition, these firms engaged in a series of mergers and acquisitions that threatened to form global monopolies exerting absolute power over consumers.

Against these impersonal corporate forces, society began to mobilize, just as it had during the first wave of globalization in the late nineteenth century, which produced labor unions and socialist parties. Take the case of the Multilateral Accord on Investment (MAI). First unveiled in 1995 by the Organization for Economic Cooperation and Development (OECD), it promised to create new rules for international investment. Such a venture would hardly be expected to generate public controversy. Yet apparently out of nowhere, a coalition of NGOs concerned with labor and environmental standards began an Internet campaign against the MAI. Activists were troubled most by the secretive nature of the talks—not the accord's details—and they charged that international rules were being made by a handful of advanced countries and their multinational firms. Many governments, chiefly that of the United States, also came to view the proposal as fundamentally

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flawed. But the degree of hostility against the MAI clearly caught the OECD and its member states off-guard. The opposition of NGOs was probably decisive in killing the accord.

Had this been an isolated case, public officials might have been quick to dismiss the potentially disruptive role of NGOs. But their potent (and violent) demonstration during the Seattle trade talks in December 1999 provided another example of a growing antiglobalization wave. The Seattle protests were followed by similar demonstrations at other meetings, and soon the WTO and related institutions were under full-scale assault.

Today, an alliance of consumer groups, socially responsible investors, labor unions, environmentalists, and human rights activists—based mainly in the rich countries—have begun to agitate against recent changes in the global economy. Recognizing the difficulties associated with influencing or overturning government policy at the domestic level, they have shifted their attention to multinational firms and international organizations. These NGOs have become a David battling the corporate Goliath, using every weapon at their disposal to make the giant stagger. The Internet and the news media have been invaluable in that assault, enabling the ethicists to score several major victories in their corporate crusade.

SOUND AND FURY

THE MOST EFFECTIVE WEAPON of the NGO-based ethics movement has been publicity campaigns aimed at firms whose behavior it deems unacceptable. The goal is to get companies to change their business practices "voluntarily" or else risk the consequences of bad press and a consumer boycott. (As Oscar Wilde once said, "morality is the attitude we adopt toward people we don't like.") It has proved an effective strategy, as many corporate executives in the textile, energy, and pharmaceutical industries will testify. But the ethical outcomes of such targeted campaigns are hardly straightforward. Independent analysis is lacking, and in its absence, noise and passion are ruling over logic.

Apparel companies were among the first targets of the ethics crusade. A coalition of unions and NGOs, such as Clean Clothes and

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CORBIS-BETTMANN

Conduct unbecoming: anti-WTO protest, Seattle, November 22, 1999

No Sweat in Europe and the National Labor Committee in the United States, began focusing on "sweatshop" conditions in developing-world clothing factories. These groups cleverly turned protectionist arguments on their head: Western consumers should reject imported garments not because cheap labor in Indonesia was undermining textile employment in South Carolina but because multinational corporations were gruesomely exploiting local workers. These laborers were earning slave wages while the products they made sold for a fortune. The crusaders thus lobbied on behalf of people who had no role on the world political stage, and the villains in that story were the very brand names that had achieved heroic status among the consumer class.

Many prominent apparel companies, including Nike, Adidas, and the Gap, began to experience the full force of NGO and media rage, with a barrage of stories and Internet-based campaigns aimed against their products. Students lobbied their universities to sever business ties with companies that employed sweatshop labor. As a result, several firms changed their behavior, raising standards abroad and inviting independent monitors to assess their progress. A growing number of companies even hired vice presidents for "corporate social responsibility."

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But these changes have not always been for the better. Take Nike, whose labor practices in Asia were ridiculed in Garry Trudeau's cartoon *Doonesbury*. Nike recently announced that it would no longer employ workers younger than 18 in its shoe factories, putting an end to any fears that it was hiring child labor. That plan sounds nice, but it does little for the 17-year-old in Indonesia or Vietnam who would rather work for an American multinational than for a domestic employer. Eighteen is well beyond the end of minimal compulsory education in most Asian countries, which is where the child labor line should be drawn.

Child labor is a difficult issue that is naturally fraught with emotion. But Nike's "solution" to that problem is partial at best and perhaps even counterproductive, because it ignores the economic reality facing millions of children around the world. The best thing for children, of course, is to stay in school, acquiring skills that will increase their future earning capacity. Several developing countries, including Brazil and Mexico, have recently launched innovative schemes aimed at providing financial support to poor families so that their children need not leave school to beg or seek work. If they truly wanted to be more socially responsible, corporations would complement these schemes by offering scholarships to vocational schools and universities or internships to provide poor kids with work experience.

NGOs have targeted big corporations and discovered that the media love their antics.

But not all kids stay in school, and for them employment in a multinational firm's manufacturing plant may be better than the next-best legal alternatives: working in domestic industries or begging. Take the famous case of soccer balls. During the 1990s, an ethics crusade was launched against major manufacturers of soccer balls, including such brand names as Reebok and Nike. Their balls were made mainly in Pakistan, often by children. Due to the outcry, the companies set up a new manufacturing facility and outlawed the use of child labor. What was the outcome? The community that once made the balls suffered when the companies quit town, with fewer job opportunities and no greater educational prospects for local workers, especially women and children.

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In the environmental arena, groups such as Greenpeace have adroitly targeted corporations such as Royal Dutch Shell and discovered that the media loves its dramatic antics. Greenpeace's war against Shell began in the early 1990s, when the oil company announced plans to bury one of its old platforms at sea. Shell claimed this solution would have less of an environmental impact on the North Sea ecosystem than would the alternative—dragging the platform back to shore and dismantling it on land—and it provided a number of independent consulting reports in support of its decision. Dissatisfied with the evidence (or perhaps just smelling blood in the water), Greenpeace began a vigorous, media-driven campaign against the operation, featuring illegal helicopter landings on the rig and similar acts of derring-do. Shell backed down and accepted the NGO's demand to bring the platform back to shore. But it later turned out that Shell had been right all along about the environmental impact. Greenpeace eventually issued a public apology.

More recently, pharmaceutical firms have fallen under the ethical spotlight of NGOs and the global press. NGOs have demanded that these corporations provide African AIDS victims with drug therapies at reduced prices. But even in such a heartbreaking case, the costs and benefits should be analyzed with care. The starting point for a global discussion on AIDS should not be a unilateral demand for cheap drugs but a search for the most effective way to end the epidemic.

NGOs first took on their crusade against pharmaceutical companies in 1997, after a group of firms decided to sue the South African government for unfair trade practices. With 20 percent of its population testing positive for the virus that causes AIDS, Pretoria had passed a law allowing the import and production of cheap generic substitutes for the patented therapies then on the market. Merck, along with other drug giants, charged that the law would violate international trade rules governing property rights. The United States government initially backed the firms in this action, threatening to haul South Africa before the WTO.

But the lawsuit generated a massive amount of negative publicity and ill will, thanks in part to the advocacy of such NGOs as the Nobel Prize–winning Doctors Without Borders, which had promised to buy and distribute the cheap generic drugs. Not surprisingly, the

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Clinton administration responded by abruptly lifting its opposition to the South African law—a move that the current Bush administration has decided not to reverse. This past spring, after months of almost daily abuse by the press, Merck and several other pharmaceutical companies announced that they would sell AIDS-therapy drugs at production cost to developing countries—a classic example of damage control. Subsequently, they dropped their suit against Pretoria.

If any case supports the argument for greater corporate social responsibility, surely it is this one. Had the drug companies recognized that saving lives must come before making profits, the bold gambit of providing drugs at cost would have won them global praise. It is hard to argue against making drugs available to patients that desperately need them, regardless of their nationality or income bracket. Yet the possible adverse consequences of this decision need to be considered. If the giveaway means lower profits for manufacturers—and thus less incentive for innovation—this victory will prove a hollow one for future patients with deadly and debilitating diseases.

And who ought to subsidize the drugs sold to developing countries—pharmaceutical companies, governments of developing countries, foreign aid agencies, or charitable organizations in the industrialized world? Most advocates think that only drug firms should be responsible for shouldering these costs. But that is cynical posturing and cheap talk on the part of the world's politicians and activists. The public health policies of many developing countries are a shameful mess, and industrialized nations put up no more than a pittance to help them. Yet only pharmaceutical manufacturers have become the scapegoat.

There are no cheap or easy solutions to the AIDS crisis, no matter what the drug companies do. United Nations Secretary-General Kofi Annan has called for a $7 billion fund to combat the disease, far more than the current $1 billion spent on it annually. But at the U.N. AIDS summit in June, donor countries pledged only an additional $700 million. Clearly, more money must be allocated for preventive health and educational measures as well as for vaccines, and those costs must be shared by firms, governments, and international organizations.

For their part, the best contribution that pharmaceutical manufacturers can make is to continue their search for effective AIDS treatments—

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which they can do only if they expect an adequate return on the investment made in research and development. Given the financial straits of many developing countries, industrialized-world governments and international institutions can help stimulate innovation by offering grants and loans to buy drugs as they become available. The recent decision to provide currently available therapies at production cost gave drug companies some public-relations cover when they badly needed it, but it would be a shame if it distracted public attention from more sensible issues such as prevention.

In fact, if the AIDS epidemic is to be controlled, it will require a massive educational campaign focused on sexual practices. That is the lesson of the relatively successful cases of Botswana and Uganda, where the incidence of AIDS declined dramatically during the 1990s. But with the prospect of subsidized drug therapies now dangling before their eyes, African leaders may convince themselves and their citizens that cheap vaccines are on the way, thereby undermining public health programs aimed at prevention. Furthermore, all the media and NGO attention being lavished on AIDS treatments may cause policymakers to place less emphasis on such underresearched diseases as malaria, which unlike AIDS is found only in developing countries.

These cases illustrate an obvious but crucial point: the issue of corporate ethics is hardly straightforward, and most policymaking involves weighing tradeoffs among social goals. Environmental degradation and the health and safety of working people are critical issues, but few experts have one single answer for how to address them. No progress can be made on these problems without a careful cost-benefit analysis of alternatives.

Getting that message out will not be easy. It will require the kind of balanced reporting that is missing from most media accounts of corporate decision-making. For their part, NGOs have little incentive to perform such impartial research, since their success lies in asserting their own solutions rather than making compromises. By shouting loudly, they have compelled business executives to reconsider their operations in several important instances. In each of the above cases, the corporate about-face was driven by a combination of NGO activism and bad publicity.

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TOO CLOSE FOR COMFORT?

IN THE AFTERMATH of these incidents, NGOs and multinationals have strengthened their relationship. Having demonstrated their clout on the global battlefield, NGOs are now getting serious corporate attention. Their leaders are invited to high-profile gatherings such as the World Economic Forum's meeting in Davos, Switzerland, and are consulted on a more regular basis. As BP tells its managers, "Don't be afraid of NGOs. Listen to them, hear their concerns and challenges. ... This is due diligence."

Beyond their role in getting firms to alter allegedly unethical business practices, NGOs have collaborated with activist shareholders to insist on greater corporate transparency. Today, businesses are sharing more information than ever before on their human rights, labor, and environmental policies. But that deluge of information has raised the issue of how to compare practices and performance across firms. As a result, the data glut has given rise to a host of external standards, certificates, and auditing procedures in the name of "triple bottom line" or "sustainability" accounting, which goes beyond financial statements to also assess a firm's social and environmental performance. Meeting these expensive and time-consuming reporting requirements is onerous even for large firms. A company that makes this investment must therefore make sure that it serves not only the interests of consumers, "socially responsible" investors, and NGO-based critics, but also those of mainstream shareholders. To the extent that greater transparency among firms could spark a "race to the top" for higher labor and environmental standards, the call for such standardized reporting should be widely applauded. But few benefits come without a price.

Today, firms that seek medals for their social achievements encounter no shortage of them. Validations in the environmental arena are offered by industrial groups (e.g., the European Chemical Industry Council), accounting bodies (e.g., the European Environmental Reporting Awards offered by the Accounting Bodies of European Countries), and international organizations (e.g., the International Organization for Standardization's 14000 series). Similarly, NGOs perform "social audits" and provide advice to portfolio managers seeking to invest in "responsible" firms.

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The main problem with all this activity is that it carries a high price, which someone, somewhere, must pay. Small businesses in particular could be placed in a vulnerable position, since they are likely to find the expense of these auditing and certification procedures beyond their reach. The Gap, for example, spends $10,000 a year to hire independent monitors for just one of its factories in El Salvador, a cost that smaller firms could not support.

Nobody yet knows how to improve working conditions and environmental quality without imposing heavy costs somewhere.

External certification may also have ambiguous effects on local workers. Take that same Gap factory. Outside monitoring has probably led to better working conditions, but wages are virtually the same as they were five or six years ago. Might not local workers have preferred some pay raises instead, had they been given the choice? On the other hand, a company's failure to make this investment could lead ethical crusaders to target it, possibly forcing changes in its business plans. J.C. Penney and the Target Corporation (formerly Dayton Hudson) are among the American companies that have cancelled some of their contracts with suppliers in developing countries due to labor agitation that was supported by U.S.-based unions. One wonders whether local workers are made better off as a result.

Although external certification may help promote higher environmental and labor standards, it can also take these gains away by limiting competition, strengthening monopoly power, lowering wages, and undermining economic development. These costs and benefits need to be assessed, something that the shapers of triple bottom line accounting standards—generally big corporations, NGOs, and consulting firms—have failed to do. Nobody yet knows how to improve environmental quality and working conditions without imposing heavy costs somewhere. Corporate ethicists must be careful to balance their demand for standardization with incentives for performance and process improvement, because premature attempts to standardize corporate performance could stifle badly needed innovation.

Triple bottom line accounting provides a nice example of how NGOs have managed to cash in on the ethics crusade. As both supplier

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and monitor of these regulations, NGOs have been able to generate significant new sources of income for their activities. American foundations, for example, have provided generous support to NGOs that seek to act as multinational monitors, and corporations are even hiring these organizations to act in that capacity—another sign of the growing symbiotic relationship between firms and NGOs.

One prominent proponent of triple bottom line accounting is the Global Reporting Initiative (GRI), which grew out of the "Valdez principles" on corporate responsibility that emerged after the *Exxon Valdez* oil spill. Established in 1997 by the Coalition for Environmentally Responsible Economies, a consortium of business groups and NGOs, it provides further evidence of growing NGO power in the corporate world. Working with the U.N. Environmental Program, several foundations, and 21 multinational companies, the GRI has produced a set of detailed guidelines on the reporting of environmental and labor practices. Released in March 1999 and revised in June 2000, these initial guidelines prompted plans to establish an independent GRI institution.

Accounting firms have seized on triple bottom line reporting as a lucrative source of new business. According to one of the major players in this arena, PricewaterhouseCoopers (PWC), the GRI promotes a set of "uniform standards for measuring, reporting, and authenticating" the corporate commitment to "societal responsibilities." PWC offers its services to those companies that wish to report their results using the GRI format, and some firms have already seized the opportunity. Nike, which the press has battered for its allegedly low labor standards in developing countries, is among the companies that have used PWC to monitor working conditions.

But ethical reporting is hardly a panacea. According to Dara O'Rourke, a professor at the Massachusetts Institute of Technology who accompanied PWC on some of its inspections of Nike plants, the auditors ignored hazardous chemical use, barriers to freedom of association and collective bargaining, violation of overtime and wage laws, and other infractions. O'Rourke concluded that the firm's monitoring methods are "significantly flawed."

Cynics should not be surprised by these failings. After all, auditors value their corporate relationships. So should ethical accounting be dismissed as another public-relations charade? Not necessarily—

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O'Rourke was invited along for the ride, after all. The bigger problem with triple bottom line accounting is its high price tag and the growing coziness between NGOs and large corporations, whose ethical efforts could impose costs on those least capable of bearing them.

RULES OF ENGAGEMENT

WHERE have governments been in the business ethics debate? On the one hand, they have defined the debate's parameters, since a nation's regulatory regime establishes the legal bottom line for corporate social responsibility. On the other hand, they have been hamstrung by a process that is unfolding largely outside traditional political frameworks. One of the more unexpected aspects of the ethics movement is that it has found direct action focused on big business to be more effective in altering corporate behavior than indirect action focused on government regulation. Bypassing the state is easier than influencing it.

To be sure, heads of state have routinely used their offices as bully pulpits, calling on the corporate world to serve the public interest as they define it. But being successful at that game takes a level of moral standing that few national political leaders currently possess, especially given the preponderant role of big business in financing election campaigns in the United States and elsewhere. It is unlikely that Italians, for example, will look to their scandal-plagued prime minister, Silvio Berlusconi, for lessons on corporate ethics.

Sensing this moral gap, Annan has cleverly defined a new role for himself. He is especially well positioned to define the meaning of capitalism with a human face. And given the extraterritorial nature of many ethics disputes, from labor conditions to pollution, it is not surprising that international organizations view corporate social responsibility as a growth industry. Annan has used his bully pulpit to mediate some of the high-profile conflicts between countries and firms. Most prominently, he is widely recognized for his work in helping pharmaceutical companies and the South African government reach an agreement on AIDS therapies.

The secretary-general has sought to establish a moral framework for multinational corporate operations through the U.N. "Global

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Compact," which he launched last year at the annual Davos meeting of the World Economic Forum. The compact asks the world's largest firms to subscribe to nine core principles in the areas of human rights, labor rights, and the environment. Drawn from existing U.N. agreements, these principles are claimed to be universal. Recently, Annan asked the former chairman of the Swedish multinational ABB to help him get other firms to sign on. But Annan's credibility is undermined by his failure to criticize those U.N. member states that fail to uphold their own international obligations. China, for example, violates the core labor rights of free association and collective bargaining, and Myanmar shrugs off the ban on forced labor. Given this state of affairs, it is not surprising that NGOs have found it more productive to go after corporations directly rather than through the U.N. system.

Although the U.N. Global Compact is the most prominent international code, it hardly stands alone. In the wake of the MAI debacle, for example, the OECD sought to salvage its efforts by revising its long-standing Guidelines for Multinational Enterprises. These provide rules for multinationals in a variety of areas, including corruption (don't engage in it), science and technology (transfer it), and taxation (pay what you owe). They have the benefit of being more detailed than the Global Compact, but their legitimacy is weakened by the fact that the OECD has no member states from the developing world.

Despite the political appeal of setting global codes of conduct, the most significant contribution that international organizations can make to the corporate ethics debate is to analyze proposed solutions impartially. They could, for example, perform a great public service by evaluating proposed changes in labor and environmental standards according to their costs, benefits, and likely distribution of winners and losers, because few sources of impartial information are currently available for guiding global discussions.

Finally, chief executives face a nearly impossible task in this new age of corporate social responsibility. Beyond satisfying their shareholders, consumers, and employees, they face a growing number of NGO-based watchdogs as well. The law still compels them to maximize shareholder value, but the number of variables that could influence the bottom line seems to be increasing at an exponential rate. The impact of this change is hardly neutral. In many cases, it could hurt the supposed beneficiaries

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of multinational investment, such as developing countries and unskilled workers. Executives concerned about such unintended consequences will need to speak out.

With few exceptions, corporate executives are invisible to the average consumer. That anonymity is likely to end as corporations face the harsh light of public opinion, and managers must use this new publicity wisely. Corporate leaders need to recognize that the ethical future is up for grabs. Although some executives might argue that they can do little to shape their business environment, they still have a responsibility to their shareholders and to society to bring the self-declared ethicists to heel when necessary instead of caving in to their demands.

Executives may still cling to the hope that the current focus on corporate social responsibility will simply fade away. A prolonged economic recession or slowdown could derail the movement as public and managerial attention turns to more immediate pocketbook issues. When individual firms encounter hard times, they tend to focus on the financial bottom line; jeans manufacturer Levi Strauss—an ethical star but a financial disappointment—provides a telling case in point. It recently appointed a hard-nosed executive to help improve its bottom line. But the corporate ethics crusade is not likely to soon disappear and may even be gathering momentum.

Grappling with poverty, inequality, gender discrimination, child labor, and environmental pollution are serious matters that rarely allow for easy solutions. Meeting these challenges will require the mobilization of huge sums of financial and intellectual capital, coupled with sound cost-benefit analysis of the policy alternatives. Here is where the ethics movement, with its moral certainty, has failed to live up to its potential as a positive force for change. By focusing attention only on issues that tug at the heartstrings of wealthy consumers, it has left aside those matters that may be even more critical to global economic development, such as the role of multinational firms in technology transfer and human-capital formation. It has also dismissed the ultimate importance of governments in shaping a country's regulatory climate, believing instead that it represents some transcendent national or global interest in higher labor and environmental standards. Now that the ethics crusaders have assumed such prominence in the world, they must reconsider their responsibilities to those for whom they purport to fight.

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Caspian Energy at the Crossroads

Jan H. Kalicki

FUEL FOR THOUGHT

IN RESPONSE to recent oil and gas price hikes, recurring blackouts in California, and other symptoms of a U.S. energy "crisis," both the Bush administration and the Senate have made national energy security a top priority. Whereas the Bush team has advocated increased domestic energy production, the Senate—now under Democratic control—has emphasized conservation. Neither side, however, has given adequate attention to international energy policy, particularly U.S. policy toward the Caspian region.

The countries surrounding the Caspian Sea—Russia to the north, Kazakhstan and Turkmenistan to the east, Iran to the south, and Azerbaijan to the west—hold some of the largest oil and gas reserves in the world. And together with neighboring Armenia, Georgia, Turkey, Ukraine, and Uzbekistan, they represent important economic, political, and strategic interests for the United States. To advance those interests, Washington should strengthen its policy toward the Caspian by giving the highest level of support to the cooperative development of regional energy reserves and pipelines. In particular, it should encourage the construction of multiple pipelines to ensure diverse and reliable transportation of Caspian energy to regional and international markets.

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Although the Organization of Petroleum Exporting Countries will continue to dominate the global energy market for decades to come, oil and gas development in the Caspian basin could help diversify, secure, and stabilize world energy supplies in the future, as resources from the North Sea have done in the past. The proven and possible energy reserves in or adjacent to the Caspian region—including at least 115 billion barrels of oil—are in fact many times greater than those of the North Sea and should increase significantly with continuing exploration.

Such plentiful resources could generate huge returns for U.S. companies and their shareholders. American firms have already acquired 75 percent of Kazakhstan's mammoth Tengiz oil field, which is now valued at more than $10 billion. Over time, as the capital generated from Caspian energy development spreads to other sectors, U.S. firms in other industries—from infrastructure to telecommunications to transportation and other services—could also benefit.

In addition to these energy-related and commercial interests, the United States has important political and strategic stakes in the Caspian region—including a NATO ally in Turkey, a former adversary in Russia, a currently turbulent regime in Iran, and several fragile new states. Located at the crossroads of western Europe, eastern Asia, and the Middle East, the Caspian serves as a trafficking area for weapons of mass destruction, terrorists, and narcotics—a role enhanced by the weakness of the region's governments. With few exceptions, the fledgling Caspian republics are plagued with pervasive corruption, political repression, and the virtual absence of the rule of law. Even if they can muster the political will to attempt reform themselves, the attempt will fail so long as they lack the resources to build strong economic and political institutions. And until they build close, substantive relations with the West, they will remain vulnerable to Russia's hegemonic impulses. The cooperative development of regional energy reserves and pipelines—independent of their huge neighbors to the north and the south—thus represents not only a boon for the United States and the world at large, but also the surest way to provide for the Caspian nations' own security and prosperity.

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PIPE DREAMS

COOPERATIVE VENTURES in Caspian oil production and pipeline development have already reaped considerable benefits. Chevron, for example, has led a consortium of investors (including ExxonMobil, the state-owned Kazakhoil, and LukArco, a joint venture between Russia's Lukoil and Arco, now owned by BP) in developing the Tengiz field, which holds more than 10 billion barrels of oil. Agip, meanwhile, a subsidiary of Italy's ENI, is now leading the OKIOC consortium (which includes British Gas, ExxonMobil, France's TotalFinaElf, and Royal Dutch Shell) in developing the Kashagan field off the coast of Kazakhstan, which could well rival Tengiz in oil volume. Each project is expected to cost $20 billion over 20 years, bringing valuable capital and jobs into Kazakhstan and reinforcing its ties with the West.

The potential for state and corporate cooperation is best illustrated by the success story of the Caspian Pipeline Consortium (CPC), which is owned half by governments (Russia, Kazakhstan, and Oman) and half by companies (eight in total, including Chevron, ExxonMobil, and LukArco). Its pipeline, which loaded its first tanker in August, transports oil from Tengiz through Russia to the Black Sea for export to Europe and the United States. When it reaches its planned capacity of 1.3 million barrels per day or more, it will contribute the biggest single addition to the world oil market since reserves from Alaska and the North Sea became available in the 1970s.

Meanwhile, in the western Caspian, the BP-led Azerbaijan International Operating Company (AIOC) is working with the Turkish state-owned pipeline company BOTAS on a multimillion-dollar study of the Baku-Tbilisi-Ceyhan pipeline. The BTC line—strongly endorsed by the U.S. and Turkish governments—would carry one million barrels of oil per day from Baku in Azerbaijan to Tbilisi in Georgia and from there to Ceyhan on Turkey's Mediterranean coast for export to Europe and the United States. Most of that oil would come from the Azeri-Chirag-Guneshli fields off the coast of Azerbaijan, which are expected to produce up to 480,000 barrels of oil per day by the time the BTC pipeline is completed in 2005, and up to 1.2 million barrels per day by 2010. In addition, oil producers in Kazakhstan could ship into the BTC pipeline 200,000 barrels per day from Kashagan and another 200,000 barrels per

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day from onshore fields other than Tengiz.

For now, however, the Caspian nations, particularly Kazakhstan, still depend heavily on Russia for oil transportation. Most of their oil exports go through Russian pipelines, including the new CPC line, to Russian ports on the Black Sea, where they are then shipped through the Bosporus to international markets. In fact, until the AIOC recently constructed a pipeline that carries some 115,000 barrels of "early oil" per day from Baku to Supsa on Georgia's Black Sea coast, Russia held an effective monopoly on Caspian oil transportation.

Oil and Gas: *Proven and Estimated Reserves*

	Oil *(in billions of barrels)*		Natural gas *(in trillions of cubic meters)*	
Country	*Proven*	*Possible*	*Proven*	*Possible*
Azerbaijan	8	15	1	2
Kazakhstan	15	65	2	3
Turkmenistan	1	3	2	4
Uzbekistan	1	2	1	2
Total	25	85	6	11
Iran (all regions)	90	110	23	33
Russia (all regions)	49	99	48	98
Total	139	209	71	131
North Sea	17	27	4	5
United States	22	174	5	43
Arabian Peninsula	471	531	23	41

Note: Figures are rounded.
Sources: *BP Statistical Review of World Energy; U.S. Geological Survey World Petroleum Assessment;* U.S. Energy Information Administration; unofficial estimates.

Continued dependence on Russian pipelines would be dangerous because it would allow Moscow to unilaterally raise tariffs and constrain Caspian exports, or threaten these actions to win political or economic concessions from its neighbors. Both Kazakhstan (an energy exporter) and Georgia (an energy importer) have been particularly vulnerable to such pressure, and their future political autonomy will rest on their ability to secure independent access to international energy markets.

As an alternative to the Russian pipeline system, the Kazakh government has recently agreed with TotalFinaElf to study the feasibility of a pipeline from the Kazakh oil fields to Iran, where it would be "swapped" with exports from the Persian Gulf—a route that advocates say would be shorter and thus cheaper than both the BTC and the CPC routes. Nevertheless, it would be difficult to develop and construct such a pipeline before the BTC line's completion in 2005. And besides, Kazakhstan would be ill-advised to entrust its energy security to Iran,

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a large strategic competitor in the international energy market. Tehran could give priority to its own exports or seek other leverage from its control over exports to the south. Bulgaria and Ukraine have both offered their own plans for pipelines that may prove viable in the future, but the former faces continued conflict and turmoil in the transit countries (Albania and Macedonia), whereas the latter confronts limited demand for oil in central and eastern Europe. And both risk the environmental dangers that come with emptying tankers midroute.

The BTC pipeline thus remains the best alternative to the Russian lines. Compared to other routes, it offers a more secure investment environment, a potentially lower tariff (currently projected at less than $3 per barrel), direct linkage to large carriers in the Mediterranean, and access to the substantial Turkish and western European energy markets. The BTC line will also divert traffic from the Bosporus, reducing Turkish resistance to Russian plans for increased shipping there. Most important, the cooperative development of the BTC line will not only provide a reliable alternative to Russian pipelines but also solidify ties between the Caspian nations and the West. The United States should therefore fully support it, even if the project does not offer as high a return as initially expected.

OIL SLICK

TURKEY, AZERBAIJAN, AND GEORGIA, with strong encouragement from the United States, have already formally agreed to support the BTC pipeline's passage through their territories. These countries are now negotiating with Kazakhstan on the transportation of oil across the Caspian into the BTC pipeline. On March 1, Kazakhstan joined them and the United States in signing a preliminary memorandum of understanding to this effect. At the same time, however, Kazakhstan has faced intense pressure from both Russia and Iran to transport its oil through their respective pipelines instead. To satisfy Moscow, Kazakh President Nursultan Nazarbayev has consistently given top priority to the construction of the CPC pipeline, which runs through Russia. But despite occasional gestures to Iran, he has committed to the BTC pipeline as his second priority and will be free to step up his consideration of non-Russian alternatives when the CPC line becomes operational in August.

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For its part, Russia is continuing to develop its own oil fields and expand its existing pipeline system. Lukoil, for example, has begun to develop the Severniy oil field in the Caspian, which could eventually offer opportunities for Western investment. Meanwhile, in an effort to maintain Russian dominance over Caspian energy transportation, the state-owned Transneft has built additional stretches of pipeline in a bypass around Chechnya, as well as a line from the Dagestani port of Makhachkala. Last April, Russia's Caspian negotiator and former energy minister, Viktor Kalyuzhniy, suggested that Russian pipeline tariffs should be reduced so as to divert oil from the BTC route, revealing Moscow's persistent interest in undermining alternatives to its pipeline system.

Reliance on Russian pipelines would allow Moscow to raise tariffs and constrain exports.

Russia has also continued to ship large volumes of oil through the Bosporus. It already transports one million barrels per day across the Black Sea, from Russian and Kazakh fields through its existing pipeline system and from Azerbaijan through the newly built bypass around Chechnya. In the next decade, however, these shipments may well be surpassed by those coming from Kazakhstan through the CPC pipeline as well as across the Caspian and through Dagestan. Thus Moscow urgently needs to secure Ankara's acquiescence to increased Russian shipping through the Bosporus, which may be a problem because vessels traversing the long and narrow strait have already experienced numerous accidents, some resulting in serious oil spills and injuries. Although in the past Russia has unilaterally asserted its shipping rights by relying on the 1936 Montreux Convention's declaration of the Bosporus as an international waterway, it now appears interested in a more cooperative approach with Turkey, especially given the importance of the Turkish market for Russian energy exports.

Iran, like Russia, has proceeded to develop its own oil fields and to invest in those located off the coasts of Azerbaijan and Turkmenistan. It has been upgrading its oil-processing facilities in Neka on the southeastern Caspian coast, and it is now building an oil pipeline from Neka to Tehran. At the same time, it has been constructing pipeline links and electricity grids with Turkey and the countries of Central Asia and the Caucasus. And it has pursued energy deals

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with the other Caspian states, including profitable "oil swaps" with Turkmenistan in which Iran exports oil from its southern fields through the Persian Gulf in exchange for imports from its northern neighbor.

Iran has also actively courted foreign investment in its energy sector—an opportunity that European and Japanese companies have already seized. The Iran and Libya Sanctions Act (ILSA) threatens U.S. sanctions against foreign companies that invest more than $20 million in Iran, but those measures have yet to be enforced. The two U.S. executive orders that accompany ILSA, on the other hand, have precluded American firms from investing in Iran altogether. In 1995, for example, Conoco was forced to yield development of the Sirri fields in Iran's Persian Gulf waters to France's Total (now TotalFinaElf). And last March, the Japanese firms Japex and Inpex acquired preferential negotiating rights for the lucrative Azadegan field near Iraq—a deal that U.S. firms were prohibited to pursue.

With the scheduled expiration of ILSA in August and the anticipated termination of the executive orders at the same time, U.S. firms had hoped that they too could start investing in Iran. But despite Iran's landslide reelection of moderate President Mohammad Khatami in

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June, Congress is likely to insist that sanctions be renewed, given Iran's continued nuclear and missile development, hostility toward Israel, and alleged links to the 1996 bombing of U.S. troops in Saudi Arabia. Thus, the best that U.S. companies can realistically hope for is that the White House will revise the executive orders so that domestic and foreign sanctions are aligned. At the very least, the executive orders should allow U.S. firms to invest up to $20 million a year in Iran, the same amount permitted foreign companies by ILSA. Even this limited step could shore up the market position of U.S. firms and help reduce Iran's hostility toward the United States, especially if ILSA and the executive orders are eventually phased out.

COLD TURKEY

THE GEOPOLITICAL CONSIDERATIONS that dominate the debate over transporting Caspian oil also apply to the region's natural gas. But whereas the oil debate centers on bringing Caspian oil to inter-

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national markets in general, the most pressing concern with gas is the growing Turkish demand. Assuming that it recovers from its current economic crisis, Turkey expects its annual gas consumption to more than triple over the next decade, to 55 billion cubic meters. Having already experienced serious gas shortages during its cold winters, Turkey is eager to import more gas from its neighbors—it currently produces only five percent of what it needs.

The question is whether Turkey will continue to depend heavily on Russian imports or whether it will successfully diversify its supply. Today, Russia controls 70 percent of the Turkish gas market, transporting about 10 billion cubic meters per year through the Balkans. It plans to ship another 16 billion cubic meters per year by 2007 through the Blue Stream pipeline, currently under construction by Russia's Gazprom and Italy's ENI. The pipeline will run underwater across the Black Sea at unprecedented depths, making it somewhat susceptible to breakage, and the project's technical complexities, along with serious allegations of corruption, are leading many Turks to question their country's reliance on Russia—or any single country—for so much of its energy needs.

One alternative gas supplier is Iran, which concluded a modest contract with Turkey in 1996 and is now completing a pipeline from Qazvin in northern Iran to Bazargan on the Turkish border. (Turkey avoids seeking supplies from neighboring Iraq out of deference to United Nations sanctions.) Iran expects to export 3 billion cubic meters of gas per year through this pipeline starting later this year, and up to 10 billion cubic meters per year starting in 2007. This contract has prompted considerable friction between Turkey and the United States, but it is unlikely to cause further confrontation so long as it remains relatively small.

More important, Turkey has promised to buy gas from Azerbaijan and, when it is ready, Turkmenistan. (Kazakhstan, with its potential gas reserves of more than 3 trillion cubic meters, could also become a supplier in the future.) Azerbaijan has actively pursued the Turkish gas market, securing a contract in March to export 2 billion cubic meters of gas per year starting in 2004 and more than 6 billion cubic meters per year starting in 2007. This contract will directly benefit BP and other investors in Azerbaijan's offshore Shah Deniz gas field; these investors also

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plan to build a gas pipeline from Shah Deniz to Turkey along the same route as that of the BTC oil pipeline—a land route that will not face the same risk of costly damages that the technically challenging Blue Stream pipeline poses.

Turkmenistan, on the other hand, has failed to take advantage of the opportunity to ship its gas to Turkey directly through an underwater pipeline across the Caspian Sea. Proposed by the Pipeline Solutions Group (a joint venture between Bechtel and GE Capital) and Royal Dutch Shell, this line would link to the planned pipeline from Azerbaijan to Turkey. Although both the United States and Turkey have strongly encouraged Turkmenistan to support this plan, Turkmen President Saparmurad Niyazov has disregarded the chance to diversify his country's energy transportation, continuing to propose instead a Russian or Iranian route, something Ankara has rejected. In the meantime, Turkmenistan continues to depend on Russian and Iranian demand for its gas sales, thereby solidifying its political alignment with those two countries and flying in the face of Niyazov's declared stance of independence.

The Bush team seems to have placed Caspian energy initiatives on the back burner.

Heavy reliance on Russian gas transportation is particularly dangerous for the former Soviet republics in light of Moscow's recent coercive behavior. For example, it has sold gas to Georgia at exorbitant rates and then interrupted the supply on several occasions, in apparent attempts to press that country to cooperate on various issues such as military action against Chechen insurgents and supplying electricity to Turkey. These actions discredit Russian reliability and only reinforce the need for alternate energy supplies and transportation. Given Turkey's recent troubles, however—including disputes between President Ahmet Necdet Sezer and Prime Minister Bulent Ecevit, a sharp currency depreciation, turbulence in Turkish financial markets, and a corruption scandal involving government energy tenders—the United States will have to step up its diplomatic efforts in the region if it wants to ensure diverse and stable energy development there.

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HIGH STAKES

ONGOING energy projects in the Caspian have demonstrated that active U.S. leadership and commercial cooperation can reap both economic and political benefits. During the Clinton administration, the United States strongly endorsed joint investments by American and Russian companies in the development of energy resources and transportation networks both within Russia and throughout the Caspian region. This approach has provided economic incentives for Russian cooperation while giving the other former Soviet republics access to unprecedented wealth—up to $100 billion over the next two or three decades—that could grant them a degree of independence not experienced since the time of Tamerlane. At the same time, it has secured a major role for American companies in the region while consolidating U.S. relations with Turkey and the other Caspian states. Finally, it contained Iran's regional influence at a time when that country's policies were particularly anti-American.

But these accomplishments are now at risk of unraveling due to inadequate attention from the Bush administration and restrictive U.S. policies. In contrast to the Clinton administration's vigorous support of Caspian energy initiatives, the Bush team seems to have placed those issues on the back burner. It has eliminated, for example, the position of special adviser to the president and secretary of state for Caspian energy diplomacy, replacing it instead with a "senior adviser" on Caspian energy issues in the State Department. And it has excused from serious Caspian energy policy development the high-level interagency groups encompassing the White House; the Commerce, Energy, and Treasury Departments; and the trade finance agencies that contributed to this policy during the Clinton administration.

In the absence of such attention, coordination, and oversight, the success and leadership of U.S. firms in the Caspian region may well be stunted by restrictive U.S. policies. In addition to the unilateral sanctions against Iran that prevent U.S. firms from enjoying the same investment opportunities as their European counterparts, Section 907 of the Freedom Support Act—supported by the powerful Armenian lobby and adopted in the wake of the conflict between Armenia and Azerbaijan—prohibits direct U.S. assistance to Azerbaijan that is

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crucial for creating the economic and political institutions necessary for stable long-term investment there.

To protect U.S. interests in the Caspian, Washington must articulate a new, robust strategy comprising both commercial and political initiatives. First, the United States must do all that it can to promote reliable, diverse regional energy transportation—and in particular, strongly support the development of the BTC oil pipeline. This means not only finalizing agreements with the relevant governments to secure political support for the project, but also encouraging U.S. and other Western companies to sponsor it.

Pipeline development could help improve relations among the EU, Turkey, and the Caspian states.

To attract support from both firms and governments, the BTC pipeline must remain commercially competitive. Although studies indicate that the project will likely be profitable eventually, two contingencies could threaten its viability: the pipeline's construction costs could exceed the projected budget of $2.4 billion to $2.7 billion, and Russia or Iran could try to lower the tariffs on their pipelines to undercut the BTC pipeline's competitiveness.

Although increased tariffs or decreased investment returns could cover moderate cost overruns, both the United States and Turkey should be prepared to subsidize any excess costs that would be commercially unsustainable. Already, Ankara has guaranteed to cover construction costs in Turkey that exceed $1.4 billion. Washington could make a similar guarantee by agreeing to subsidize construction and other risk insurance for the pipeline's corporate sponsors to be issued by the Overseas Private Investment Corporation. Although it would be far better to base pipeline development on purely commercial terms, the strategic importance of alternative, independent transportation routes for Caspian energy is great enough to justify government intervention as a last resort.

In addition, Ankara should make clear to Moscow and Tehran that any politically driven attempts to undercut BTC tariffs would be met by countervailing measures (consistent with World Trade Organization rules) against Russian and Iranian energy sales to Turkey. The Turkish government could instruct BOTAS, for example, to buy less

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energy from Russia and Iran and more from Caspian suppliers that use the BTC route, which would increase that pipeline's usage and thereby reduce its tariffs.

Aside from wielding trade threats, however, both Washington and Ankara must persuade Moscow that greater Russian cooperation and participation in Caspian energy development is economically beneficial. Absent a rupture in U.S.-Russian relations over NATO expansion, arms control, or other sensitive issues, both countries should reaffirm the joint statement they made at the September 1998 summit in Moscow supporting cooperation between U.S. and Russian companies in both bilateral and regional energy development. Russia could consider, for example, the Georgian proposal of supporting a pipeline link that would carry as much as 600,000 barrels per day from the Russian port of Novorossiysk through Supsa to Ceyhan, thus reducing the amount of oil destined for the Bosporus and sharing in the economic and political benefits of the BTC line. Lukoil already invests in Kazakh and Azerbaijani oil fields and has recently acquired the majority share of the U.S. firm Getty Oil. U.S. companies sponsoring the BTC pipeline could establish or expand partnerships with Lukoil not only in Russia and the Caspian but also in other markets.

Moreover, the United States should review its economic relations with Iran, even if Congress decides to renew ILSA. Denying American companies the opportunity to invest in Iran's civilian economy serves no purpose—especially when their European competitors are free to do so. U.S. companies should be allowed to invest in Iran as part of a broad, long-term effort to normalize relations with that country. At a minimum, they should be granted the same investment opportunities as their European competitors before becoming subject to U.S. sanctions.

The United States should make an important distinction, moreover, between U.S. energy investment in Iran, which Washington should permit, and Caspian energy transportation through Iran, which investors should avoid until a viable alternative (such as the BTC line) is in place. After all, it will hardly benefit the Caspian states to become dependent on Iran as well as Russia, since both countries are major competitors for exporting energy to international markets.

A commercial strategy focused on supporting pipeline development across Russia and Turkey for export to Europe and the United States,

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as well as allowing U.S. investment in Iran, could have broader political benefits as well. It could help dispel support in Russia and Iran for an anti-Western coalition that is reflected, for example, in the growing arms trade between those two countries. It could help the international community refocus on immediate threats such as Iraq. It could prompt the European Union to broaden its current Russia-focused energy policy to give greater regard to the Caspian. And it could facilitate stronger relations among the EU, Turkey, and the Caspian states.

Ultimately, commercial success in the Caspian will require a stable political environment. Therefore, in addition to promoting financial investment in Caspian energy projects, the United States must also commit greater technical and political resources to the region. To start, Congress should repeal Section 907 of the Freedom Support Act and provide Azerbaijan with the necessary technical aid for developing the fiscal, regulatory, and judicial institutions needed for attracting foreign investment and fostering long-term economic development. In concert with the EU, the United States should also provide incentives for the Caspian governments to root out corruption, increase transparency, and allow their citizens increased economic and political freedoms. For their part, U.S. and other foreign companies should insist that their Caspian partners follow the same business standards that prevail in their home countries. One encouraging step has been the creation of oil funds in Azerbaijan and Kazakhstan out of the government's share of energy revenues; these funds are to be used solely for the long-term development needs of those countries.

Through its Partnership for Peace, NATO could sponsor more exercises between Western and Caspian military forces to enhance border security in the region. And the Bush administration could encourage regional conflict resolution through the Organization for Security and Cooperation in Europe, as well as security cooperation through the GUAAM regional group comprising Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova. Such moves could help create a more stable environment for developing and transporting regional energy resources (which could lead in turn to further security cooperation).

Over the next few months, governments and companies in the Caspian will watch closely as the Bush administration indicates the

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extent of its commitment to the region. President George W. Bush took a positive step in March when he wrote to Nazarbayev urging Kazakhstan to participate in the BTC pipeline project. He gave another encouraging sign in April when he met Azerbaijani President Heydar Aliyev and Armenian President Robert Kocharian to encourage the resolution of their countries' territorial dispute over Nagorno-Karabakh. These steps should be followed by much more proactive Caspian energy diplomacy, including the restoration of not only the Caspian envoy's special status but also the interagency engagement and the consultations between the public and private sectors that have played such a vital role in Caspian policy development in recent years. A strong, coherent U.S. policy toward the Caspian region could bolster world energy security as well as regional stability and independence. For the United States to squander its past success and future potential in the region through complacency and inattention would be a serious mistake.

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Reviews & Responses

AP/WIDE WORLD PHOTOS

A poster of Zaire's recently deposed president, Mobutu Sese Seko, burns on a garbage heap, Goma, Zaire, November 8, 1996

Even as his army collapsed, Mobutu never grasped what was happening—the Cold War was over and he was being consigned to the dustbin of history.

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Review Essay

Behind India's Bomb

The Politics and Strategy of Nuclear Deterrence

Sumit Ganguly

India's Emerging Nuclear Posture: Between Recessed Deterrent and Ready Arsenal. By Ashley J. Tellis. Santa Monica: RAND Corporation, 2001, 653 pp. $40.00.

The Indian nuclear tests of May 11 and 13, 1998, shook an unsuspecting world. Long at the forefront of the movement for universal nuclear disarmament, India had continually chastised the five declared nuclear powers (the United States, Russia, China, France, and the United Kingdom) for not moving to eliminate their nuclear arsenals as called for by the 1970 nuclear Nonproliferation Treaty. After demonstrating its own nuclear capacity in 1974, India had refrained from testing for more than two decades. And apparently, neither the emergence of a government in New Delhi led by the right-of-center Bharatiya Janata Party (BJP) nor the Indian elites' deep reservations about the global nonproliferation regime had disturbed this quiescence. Indian decision-makers had indicated that they would not carry out nuclear tests until they had completed a lengthy "strategic review" of security threats and how best to cope with them.

The explosions in the Rajasthan desert, therefore—in addition to prompting Pakistan to detonate a few of its own nuclear bombs two weeks later—set off corresponding explosions in capitals around the world. Foreign diplomats, academics, pundits, and policymakers quickly and sharply criticized India for bucking the trend toward nuclear restraint. The open declarations of India and Pakistan as nuclear weapons powers, many asserted, would unravel the carefully woven fabric of the nonproliferation regime by encouraging other states to

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acquire nuclear weapons. They might even propel the subcontinent toward nuclear war.

The condemnations belittled New Delhi's stated reason for testing—namely, a growing threat from its powerful neighbor, China. China had not made any overt threats across the border, so what could be the problem? Foreigners instead generally ascribed the tests to what they saw as petty motivations: a desire to elevate India's international status and an attempt to bolster the BJP-led government's fortunes.

Three years on, however, little evidence has emerged to support these proffered motives. The quest for global status has been a staple of Indian foreign policy since the country's emergence as an independent state in 1947, and India's basic nuclear capability dates back more than 20 years; it is hard to link these essentially constant factors to a significant policy shift. As for the notion that the tests were designed to boost a sagging government's fortunes, informed analysts of Indian politics know that the fate of a governing coalition in New Delhi depends much more on the allocation of scarce resources such as ministerial positions than on arcane matters of national security and strategy. Even some ardent critics of the Indian nuclear weapons program now concede as much. In his new book *India: Emerging Power,* the noted South Asian security analyst Stephen P. Cohen echoes many commentators in attributing the tests to a blend of status-seeking and domestic politics, but he also acknowledges that these factors alone were not sufficient to drive India to explode five nuclear bombs.

It now appears that the real reason for the tests was indeed fear of the long-term security threat posed by China and Pakistan, coupled with bureaucratic pressures emanating from within India's scientific-technological complex. Yet only a handful of Western analysts have recognized these motivations, and even fewer have been willing to concede the legitimacy of India's strategic concerns. In fact, until recently no systematic book-length treatment of the subject was available. Now Ashley Tellis' *India's Emerging Nuclear Posture*—carefully researched, meticulously documented, and tightly argued—ably fills this void. It is not merely a *tour d'horizon* of the likely future of the Indian nuclear weapons program, but a *tour de force* on the subject of nuclear proliferation in general.

DETERRENCE "LITE"

Tellis has paid excruciating attention to detail, scouring both regional and international sources from journalism to the policy world to academia. Relying on a massive collection of evidence, he shows how growing perceptions of a security threat from China and Pakistan led Indian decision-makers toward overt weaponization and the abandonment of the country's long-held posture of nuclear ambiguity. He documents how China's security assistance to Pakistan during the 1990s, especially in the realms of nuclear weapons design and ballistic missile technology, made Pakistan a virtual strategic surrogate for China in South Asia—and how India's security establishment took note of and sought to counter this emerging threat.

Although Tellis emphasizes the critical role of external threats in precipitating the full development of India's nuclear and missile programs, he also provides a nuanced discussion of the influence of key bureaucratic constituencies. He shows

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how India's atomic energy establishment, Defense Research and Development Organization, and space research program boosted and sustained both the nuclear and missile enterprises. But Tellis also delves within these institutions, demonstrating how a complex interaction among elected representatives, civilian strategists, key military officers, and the leaders of India's strategic technological enclaves drove the decision-making process.

The most important proposition that emerges from Tellis' analysis is the primacy of the political, understood broadly rather than narrowly. Key decisions resulted not from bureaucratic turf battles or complex institutions but from the preferences and choices of India's elected elites acting in concert with critical members of various military and technological entities.

The Indian political process Tellis describes is inherently cautious, reactive, and acutely sensitive to fiscal constraints. An important consequence of these structural tendencies, Tellis argues, is that Indian decision-makers are likely to opt for a nuclear weapons program that is strictly limited in scope—in terms of the numbers of its warheads and delivery vehicles as well as operational readiness—despite considerable pressure from civilian strategic commentators. The emerging Indian arsenal is composed of weapons and delivery systems

> with key subcomponents maintained under civilian custody, but [with] those assets as a whole ... not deployed in any way that enables the prompt conduct of nuclear operations. Such assets are, in fact, sequestered and covertly maintained in distributed form, with different custodians exercising strict stewardship over the components entrusted to them for safekeeping.

This "force in being," Tellis argues persuasively, comports well with the stated goals of India's draft nuclear doctrine and the country's perceived strategic needs. It eschews both "recessed deterrence" (a term coined by the Indian strategist Jasjit Singh to describe an arsenal stored in such a way as to require lengthy preparation to assemble and launch warheads), which was deemed inadequate for India's strategic requirements, and the pursuit of a "ready arsenal" (one with nuclear missiles that can be launched at a moment's notice), which would require a costly investment that could provoke adverse Pakistani and possibly even Chinese responses.

The emergent Indian nuclear doctrine, according to Tellis, emphasizes the political as opposed to the military utility of nuclear weapons. This assertion may appear banal, but the distinction is not trivial: both the doctrine and subsequent Indian statements have explicitly underscored that Indian decision-makers view the arsenal as a pure deterrent rather than as an instrument of war. In effect, then, the principal role of India's nuclear force is to protect the nation from the prospect of nuclear blackmail and coercion at the hands of China or Pakistan, and the country's policymakers appear confident that a small nuclear force capable of surviving a first strike will do the job.

The deterrent nature of India's nuclear doctrine is reflected at the operational level of policymaking, about which Tellis provides a scrupulous discussion based on what can be gleaned from open sources. India has unequivocally renounced the first use of nuclear weapons. Though it is tempting to dismiss this commitment as mere boilerplate, there is strong reason to believe that it is actually sincere. It is

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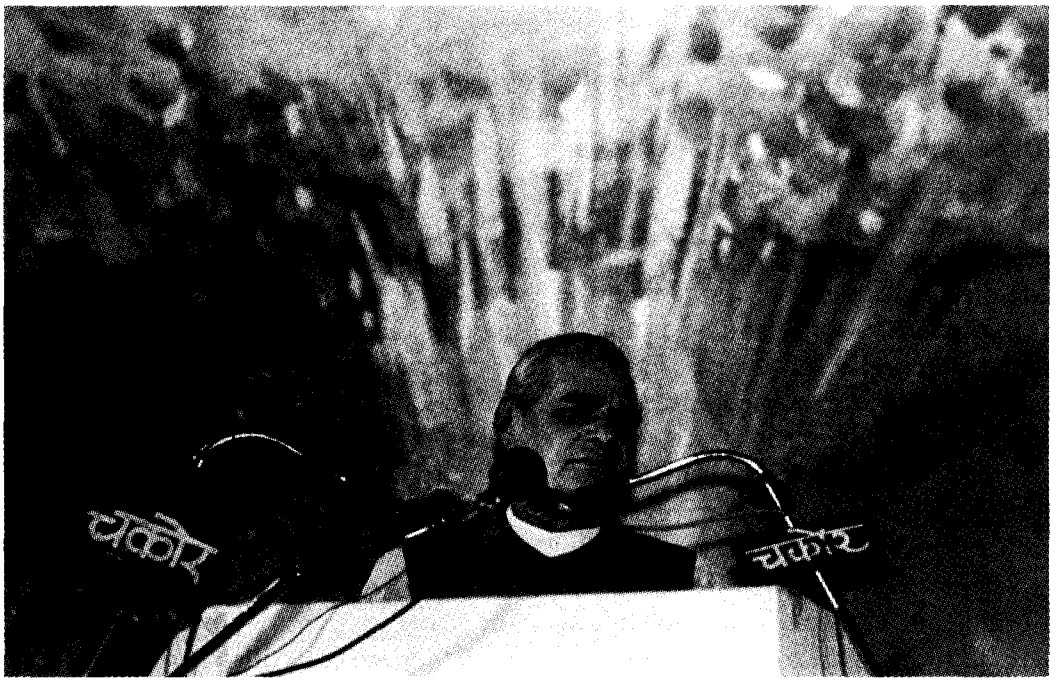

AP/WIDE WORLD PHOTOS

How I learned to love the bomb: Indian Prime Minister Atal Behari Vajpayee speaks at a rally on the first anniversary of India's nuclear test, Mumbai, May 11, 1999

consistent with New Delhi's declared nuclear doctrine, it permits India to announce its basically pacific intentions toward its adversaries, and it conforms to the expectations of a "force-in-being" that cannot provide rapid recourse during a crisis. The commitment to deterrence through the threat of punishment emphasizes India's lack of interest in using nuclear weapons to pursue either territorial or political expansion and its intention to use them instead simply to give pause to any would-be attacker or blackmailer.

As for targeting strategy, finally, it appears that India is developing a modified countervalue approach—putting an adversary's civilian assets at risk. This strategy involves making a virtue out of necessity, because a counterforce capability (i.e., one that targets an opponent's military forces) will be both technologically and fiscally beyond India's grasp for the foreseeable future. Tellis aptly sums up India's strategy, therefore, as a "lite" version of the Cold War doctrine of mutual assured destruction.

NUCLEAR RESPONSIBILITY

If Tellis is correct, many of the oft-expressed fears about nuclear instability in South Asia will prove to be unfounded. A small, secure, dispersed, and highly concealed Indian nuclear force, for example, would be invulnerable to a bolt-from-the-blue strike by Pakistan. And the problems of command and control that plague larger, more complex nuclear forces are unlikely to haunt India's decision-makers for quite some time. The likelihood of a regional nuclear confrontation with Pakistan should thus remain quite small.

Nevertheless, India's overt weaponization and Pakistan's response have created a different set of dangers: the region is now subject to what the American strategic

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analyst Glenn Snyder called the "stability-instability paradox." Given the extraordinary destructiveness of nuclear weapons and the horrific consequences that would follow from their use on the subcontinent, neither side is likely to view them as effective instruments of war. Under the seemingly reassuring shadow of the nuclear umbrella, however, both sides may be tempted to make limited or temporary incursions in strategically peripheral areas. Indeed, the world witnessed the first such move in the summer of 1999, when Pakistani army troops crossed the Line of Control (the working boundary) in Kashmir and held onto territory in the frozen redoubts of Kargil for more than a month.

It is worth noting, however, that during the ensuing conflict, India showed military restraint and a scrupulous desire to keep the fighting localized, in marked contrast to its behavior in the pre-nuclear era. When Pakistan attacked Indian positions in Kashmir in 1965, for example, within one week Indian forces had counterattacked in Punjab, thereby dramatically expanding the scope and dimensions of the conflict. In 1999, by contrast, India delayed using airpower in Kargil and avoided opening up another front elsewhere along the international border, although doing so could have strained Islamabad's limited resources. Care must of course be exercised in drawing generalizations about regional stability from one state's behavior in a single crisis. Nevertheless, India's restraint in Kargil may indicate that the implications of its nuclear status have not been entirely lost on its decision-makers.

A limited Indian nuclear force is also unlikely to set off panic in China. The vastly larger size and greater capabilities of China's ballistic missile arsenal provide it with a considerable degree of security against India; India may well be able to assuage its own fears of Chinese nuclear blackmail without generating commensurate fears in China. Indeed, recent developments in Sino-Indian relations suggest that both sides have managed to set aside the acrimony that initially followed the Indian tests. In late June 2001 the Sino-Indian Experts' Group, a joint negotiating body, finally exchanged maps of the middle sector along the Himalayan border disputed by Beijing and New Delhi. Though progress on the border question is, like the border itself, glacial, both sides clearly have a renewed interest in avoiding conflict and steadily reducing tensions, and it is possible that the possession of explicit nuclear capabilities may have made India feel secure enough to take a more moderate negotiating stance.

SECURITY COMPLEX

The policy prescriptions Tellis offers run counter to much of the prevailing wisdom about nonproliferation. He argues forcefully that the United States should pursue a differentiated rather than a universal nonproliferation policy, one that explicitly takes into account the particular security concerns of India and Pakistan (as well as Israel). In making this argument Tellis debunks the all-too-familiar contention that the pursuit of such a differentiated policy would inevitably create a "demonstration effect" whereby the example of U.S. leniency would embolden other potential proliferators. As he writes, "while international anarchy may be seamless in theory, in practice it is usually contained within specific 'security complexes.' This

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implies that actions initiated by a particular state usually evoke counteractions only by those states directly threatened by these actions and not others." Even if there is an action-reaction cycle, therefore, it is likely to remain confined to particular geographic areas of historical animosity between states. India developed nuclear weapons to counter security threats from China and, secondarily, Pakistan. Pakistan, in turn, acquired its nuclear arsenal to cope with India's overwhelming conventional superiority. In other words, whatever the other Asian states do, they will do it for their own reasons, and not because they are simply emulating what their South Asian siblings have done.

Tellis also challenges the notion that U.S. acceptance of the nuclearization of India and Pakistan will inevitably shred the carefully woven fabric of the global nonproliferation regime. He contends that such an outcome is highly improbable so long as the United States and the other nuclear powers continue to enforce existing nonproliferation norms, not least because India's past behavior fully supports the principles of nonproliferation: it rebuffed Iran's mid-1980s attempts to purchase sensitive nuclear technologies and has a solid domestic framework of export controls.

What do the peculiar dynamics of regional security complexes that Tellis describes imply about the wisdom of Washington's current, seemingly unyielding stance on global nonproliferation versus a more differentiated policy? And what should U.S. policymakers do about the South Asian nuclear situation in particular, as both India and Pakistan remain under the sanctions imposed after their tests? How one answers these questions will depend largely on the assumptions one holds about the consequences of nuclear proliferation. Thus far, U.S. policy has been based on the premise that nuclear proliferation is necessarily inimical to U.S. interests. What Tellis' book helps to make clear is that even if such a policy was appropriate to the strategic needs of the Cold War, today it is anachronistic and unsustainable. The nuclear arsenals of India and Pakistan do not fundamentally threaten U.S. security interests, nor are they likely to.

Without much fanfare or the explicit abandonment of the goal of containing the spread of weapons of mass destruction, therefore, the United States should adopt a more nuanced nonproliferation agenda—one that distinguishes between proliferators that threaten U.S. interests and commitments and those states that seek nuclear weapons largely to assuage their own regional strategic insecurities. Sanctions originally devised as a tool to coerce India and Pakistan on nuclear issues have outlived whatever usefulness they might once have had. Perversely, they have not only alienated significant sections of the Indian strategic affairs community from the United States but also contributed to India's increased self-reliance in critical military technologies. In Pakistan, meanwhile, the sanctions have led to feelings of abandonment and an erosion of American influence.

A properly calibrated U.S. policy toward South Asia would continue to promote Indo-Pakistani dialogue on Kashmir and encourage the pursuit of confidence-building and arms-control measures. It would also acknowledge India's genuine misgivings about China's capabilities and behavior in the region.

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But it would abandon the Canute-like goal of rolling back South Asian nuclear programs and focus on stabilizing them instead. To this end, it would dwell less on overt Indian and Pakistani adherence to the nuclear Nonproliferation Treaty than on the seepage of critical technologies from South Asia to other volatile regions. Such a policy would hardly win universal acclaim, not least because it would go against the grain of so much received wisdom in the arms control and nonproliferation community. But it would have two important advantages over the current stance: it would be correctly perceived as far less hypocritical, and it would hold far greater promise of achieving important results.

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Review Essay

Life and Death in the Congo

Understanding a Nation's Collapse

Thomas M. Callaghy

In the Footsteps of Mr. Kurtz: Living on the Brink of Disaster in Mobutu's Congo. BY MICHELA WRONG. New York: HarperCollins, 2001, 336 pp. $26.00.

In May 1997, as rebel forces approached Kinshasa—the capital city of the vast African country then known as Zaire—Mobutu Sese Seko fled the city to his palace in the north. Near the airport, a surface-to-air missile sat mounted on a jeep, waiting to shoot down the plane carrying the brutal dictator of 32 years. Just such a missile had killed the presidents of Rwanda and Burundi in April 1994, touching off a chain of events that eventually included invasion, civil war, genocide, and massive refugee flows into Zaire, all of which helped lead to Mobutu's downfall.

This time the plot failed. The missile was there on the orders of Mobutu's own cousin, a Zairian general named Nzimbi Ngbale. But Mobutu had been tipped off in advance, and his plane circled away from the waiting jeep on takeoff.

The dictator made it to his lavish palace in Gbadolite unharmed. But members of the Mobutu clan quickly realized that even this redoubt was no longer safe, and the aging and cancer-ridden strongman was soon hustled out of the country on a Russian cargo plane borrowed from the Angolan rebel leader Jonas Savimbi. As that plane took off, members of the abandoned presidential guard fired on their fleeing patron, but Mobutu escaped yet again. This time, however, the end was near. After a brief stop in Togo, Zaire's ousted dictator ended up in Rabat, Morocco, where he died of prostate cancer in September of that year.

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The story of Mobutu's demise is recounted in *In the Footsteps of Mr. Kurtz*, written by Michela Wrong, who covered Zaire and Africa for the *Financial Times* for six years. Having witnessed the last days of this dying regime—what she calls "a paradigm of all that was wrong with post-colonial Africa" and "a parody of a functioning state"—Wrong has now produced a gripping, gracefully penned, conscience-wrenching account of Mobutu's tyranny in the country now known as the Democratic Republic of the Congo. Much of the story has already been told, but rarely with such a combination of powerful anecdote, fine research, mesmerizing reportage, and subtle understanding.

Composed primarily of a series of often chilling vignettes, the book allows readers to feel for themselves the experiences of this haunted country—the victim of brutal autocrats, including Belgium's King Leopold II, and many years of misguided Western assistance. Wrong may make some mistakes when she doles out individual blame for the Congo's ongoing suffering. But there is plenty of responsibility to go around, and the story she tells remains a compelling one, with lessons for both Africa and the West.

IN THE BELLY OF THE BEAST

Wrong's first vignette is set at Kinshasa's Hotel Intercontinental. During the days after Mobutu's downfall, rebel leaders occupying the building had to go outside to urinate; fleeing members of the old regime had plugged the hotel's toilets by frantically stuffing them with evidence of the perishing autarchy. From there, Wrong moves back in time, presenting the reader with a fine analysis of the actions and obsessions of Leopold II, "the only European king to ever personally own an African colony." This early emphasis on Leopold is deliberate, for Wrong sees Mobutu as the Congo's "second Great Dictator," following in the footsteps of the Belgian king. By this logic, rather than being an aberration or "a monster out of time and place," Mobutu simply represented another step in the Congo's exploitation. Leopold's bloody legacy, reinforced by subsequent Belgian colonial rule, provided fertile ground for the seeds of Mobutu's tyranny.

Wrong fails to appreciate, however, the equally powerful precolonial roots of the Congo's oppression. Long before the Europeans arrived, the country already had a tradition that emphasized personal power and authority, ostentatious displays of wealth, and politics based on patron-client relations maintained through the distribution of resources. The Kingdom of the Kongo, for example, which lasted from the fourteenth to the seventeenth century—and which Wrong does mention briefly—ruled using patterns of power similar to Mobutu's, basing its support on tribute collected and distributed by the king, the ManiKongo.

If Wrong pays too little attention to the Congo's precolonial history, however, she does a much better job sketching Mobutu's early life and rise to power, lacing the story with commentary from the American Larry Devlin. The key CIA player in this drama, Devlin cites the British historian Lord Acton's famous maxim about the corrupting influence of absolute power to describe Mobutu in the 1970s. The dictator's kleptocracy came to life through the connivance of the *Grosses Légumes* (slang for "big shots"), the barons of the political class that

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Mobutu created, who were the main beneficiaries of what became a brilliantly manipulated patronage system. The essential characteristic of Mobutu's reign was not his much celebrated vulgar ostentation. Rather, it was his adroit use of money as "a method, an instrument, the most effective of techniques" for "maintaining, extending, and preserving his power."

In the early 1990s, however, the *Grosses Légumes* turned the tables on Mobutu, slowly seizing control of the government from him. Preoccupied solely with extraction and extortion, Zaire's criminal government allowed the rest of the state to simply fade away. As a result, Zaire in the third decade of Mobutu's rule became a country running on depleted power supplies—or, as its citizens, using an evocative phrase derived from the widespread use of cell phones, call it, a country "on low batt."

As Mobutu voluntarily withdrew from everyday political life into what Wrong calls an insidious decade-long sulk, the *Grosses Légumes* grew in power. The dictator sank into the bosom of his grasping family, especially the identical twin sisters who were his wife and concubine, or "second office," and into the thrall of key aides. As Mobutu retreated throughout the 1990s, Zaire came increasingly to be run by the "Inseparable Four"—rapacious senior military officers who "swiftly emerged as the real powerbrokers in Kinshasa." When the rebellion finally came, these four cynically exploited the tinderbox in the east to satisfy their own greed.

Wrong's version of Mobutu's decline, however—the withdrawal scenario—is ultimately unsatisfying. Its emphasis on passivity greatly underplays Mobutu's active role in the long-running democratization charade of the late 1980s and early 1990s. During this period, the hated dictator became fixated on eventually winning some form of election, which would allow him to return to Kinshasa in triumph. To this end, for example, he legalized political parties and then, in order to create chaos in the opposition, funded many of the more than 300 that emerged.

But the pretense of liberalization fooled no one, and throughout it, the pillage of Zaire's vast natural resources—what Wrong labels its "asset curse"—by Mobutu and his cronies continued. Meanwhile, the structures of government eroded around them. Instead of *"Kin-la-belle"* (Kinshasa the beautiful), the capital came to be known as *"Kin-la-poubelle"* (Kinshasa the garbage pail) for its ubiquitous rubbish heaps. Kinshasa's hospital lacked basic medicine, and relatives would simply abandon their dying family members there to be buried in mass graves.

When the end finally comes, Wrong paints Mobutu's fall with deft strokes. A first-rate novelist could not have dreamed such a complicated story, and Wrong tells it with verve. Mobutu's military collapsed "like a maggot-eaten fruit" as several of Zaire's neighbors moved in to defend him against other neighbors trying to overthrow him, and France organized the hiring of mercenaries—including "Serb psychopaths fresh from Bosnia's killing fields"—to help fight the rebels. Once Mobutu finally realized how desperate his straits were, he made frantic appeals to erstwhile backers in Washington, Brussels, and Paris. These calls were rebuffed, and the Americans urged Mobutu to exit gracefully. But Mobutu, convinced the Americans were plotting against him, angrily refused. Even as

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French commandos escorted his prime minister into a waiting helicopter bound for exile, Mobutu never grasped what was happening: the Cold War was over, and Mobutu, a relic of an earlier age, was being consigned to the dustbin of history.

WITH FRIENDS LIKE THESE

In depicting these events, Wrong argues that Mobutu was not the only one responsible for Zaire's tragedy. Rather, as she puts it, the disaster

> had its roots in a history of extraordinary outside interference. ... Zaire's free fall was generated not by one man but thousands of compliant collaborators, at home and abroad.

Wrong correctly posits that it was a combination of external factors—an "insidious form of colonialism"—that "locked the society into one slow-motion economic collapse" and allowed Mobutu to get away with "the most outrageous behavior." Foreign assistance only made matters worse; "whether for hard-headed or high-minded reasons, intervention did no more than fix the country in a kind of purulent agar."

Unfortunately, although her diagnosis is right, the author goes astray in analyzing the responsibility of the various external actors. In particular, Wrong places more blame than is warranted on the International Monetary Fund (IMF) and the World Bank—more blame, indeed, than her own data support. Although Wrong fails to see it, far more of the responsibility for Zaire's collapse belongs to key Western states than to multilateral organizations.

According to Wrong, Zaire developed a "sick relationship" with the IMF and the World Bank, one characterized by the "breathtaking naiveté" of Bretton Woods officials, by their "insidious" need to push loans on the country, and by their inability to insist on better governance in return. Officials turned a blind eye to corruption and kept aid money flowing into Zaire long after evidence of Mobutu's abuses had come to the fore. Even when, in 1982, a German IMF official named Erwin Blumenthal published a damning account of financial improprieties and widespread wrongdoing in Zaire, the international bodies still did not cut Mobutu off. Zaire's dictator was an expert at the ritual dances of reform, and, according to Wrong, Bretton Woods officials seemed happy to play along. By the time they finally stopped assistance, in 1990, the damage to Zaire had become enormous.

Although the IMF and the World Bank are the major targets of Wrong's anger, when her book is read carefully it becomes clear it is really a "troika" of three countries—the United States, France, and Belgium—that was most at fault. Each of these states had its own interests to pursue in the region, and Mobutu brilliantly exploited differences in their Cold War strategies and interests. It was these nations, and not the IMF or the World Bank, that were the true prime movers in Zaire's drama. Wrong herself suggests as much when she recounts an incident that undermines her thesis about the primary fault of the Bretton Woods twins. Pressure from the troika on the World Bank and the IMF to lend to Zaire was usually discreetly applied, but on occasion it could be made explicit. When the World Bank was about to cut off relations with Mobutu, the U.S. ambassador to Zaire stormed into the Washington office of Kim Jaycox, the

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World Bank's regional vice president for Africa. Despite his loathing of the Mobutu regime, the ambassador warned Jaycox that Washington opposed the idea of breaking ties and that there would be "consequences" for the institution if it froze out Zaire. The cutoff went ahead nonetheless, but the threat helps explain why it took so long in coming. Indeed, this is only one example of the kind of pressure that the troika exerted on multilateral bodies. In 1987, a senior IMF official resigned over the extension of a new loan, "claiming the U.S. had applied undue pressure." And over the years between 1976 and 1989, despite Mobutu's miserable record, major creditor countries rescheduled Zaire's debt nine times.

Further undermining Wrong's assessment of blame is the fact that, even while tremendous external pressure was being brought to bear, many in the World Bank and the IMF actually worked very hard to bring about reform in Zaire. Wrong herself recounts some of these failed efforts to control the revenue from Zaire's vast copper- and diamond-mining operations. The two institutions also struggled to regulate the *dotation présidentielle* (presidential endowment)—a part of the formal budget that went to Mobutu for his own personal use. As Wrong admits, international officials attempted to conduct these reforms against enormous odds; Mobutu harassed them both verbally and physically, even having the wife and daughters of one IMF official raped while his house was attacked. "He would cajole, bully, threaten and browbeat."

Wrong also admits that at times the World Bank's and IMF 's optimism about Zaire's potential was not totally misguided. In late 1982, for example, Zaire's situation had become so bad, "with national bankruptcy now a concrete threat," that it looked like "Mobutu might see the need to knuckle down. For three years the calculation seemed the right one as, under the tutelage of Prime Minister Léon Kengo wa Dondo, Zaire set in place a reform program regarded as a model of its kind," one that staggered into 1986 before collapsing.

Furthermore, given pressure from the troika, it is not entirely clear what the IMF or the World Bank should have done differently. And what exactly were the consequences of what Wrong calls their "insidious colonialism"? Wrong argues that these bodies should have pulled out earlier; as she writes, "It is hard to see how, if the World Bank and the IMF boycotted Zaire early on, the situation could have been more disastrous." But in practice, it is rarely clear when attempts at economic reform should be given up on, and just when the IMF and the World Bank should throw up their hands and pull out. With increasing numbers of failed states in Africa, this is becoming an ever more urgent question. But one need look no further than Russia, Turkey, Indonesia, or Zimbabwe for recent examples of just how difficult and complicated it is to push economic reforms on a country from the outside. And look what happened to Zaire after the Bretton Woods institutions finally abandoned it: Mobutu stayed in power another seven years and Zaire's plight grew even worse. If the IMF and the World Bank had cut off Mobutu earlier, Wrong argues, his government would have fallen sooner and a better one might have emerged. But Mobutu managed to hold on for a long time after the tap was turned off. After being declared obsolete by Western diplomats in 1990, Mobutu "succeed[ed] in stretching Zaire's

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so-called transition to democracy out for seven long years ... a remarkable achievement, by anyone's standards."

And what came next was not necessarily any better. As one European official put it, "[President Laurent] Kabila ... simply replaced Mobutu with Mobutuism." With ongoing civil war and foreign invasion, the scenario dreaded by major powers had "finally come about: Congo was effectively divided in two as greedy neighbors plundered its mineral spoils."

Still, Wrong sees a ray of light amid Congo's travails. She insists that "it is from just such ghastly experiences that political maturity, inspirational leadership and a sense of direction are eventually born." Such optimism seems unfounded, however; certainly the track record of Africa does not support such a hope. Wrong argues that, with the Cold War over and Mobutu dead, "[Congo] has lost the last excuse for its predicament. ... The question must now become 'What do the Congolese want?'" But deciding this will not be easy, even if the regional war being fought in the country is somehow brought to an end. Having grown used to a politics based not on national loyalty but on the dispensation of favors, still-powerful local warlords and political barons will judge any new political order by how it affects their direct interests.

As for the role that Congo's population will play, Wrong does a masterful job sketching the wily survival tactics the Congolese evolved under Mobutu to cope with their failed state. With "fend for yourselves" an unofficial national motto, postal workers stole expatriates' *Time* and *Newsweek* magazines to sell on the street; "bully-boys" shoved their way onto buses to clear seats for their clients; handicapped river traders on tricycles, taking advantage of the small ferry discount accorded them, bought goods on one side of the Zaire River and sold them on the other at prices that just undercut those of their able-bodied competitors.

All the same, Wrong chastises the Congolese for their "dull political acquiescence," writing that Congo's population was "steeped in passivity" and lived in a place "where everyone seemed to complain about how awful things were but no one seemed ready to try changing the status quo." Wrong attributes this passivity to the repressive legacies of Leopold II and Belgian colonial occupation, as well as what she refers to as "a proud tradition of nonviolence." Yet this account almost totally neglects the quite active opposition to Mobutu that emerged during the late 1980s and early 1990s. Wrong fails to credit the importance of opposition leaders such as Etienne Tshisekedi and the coalition they headed—the Union for Democracy and Social Progress. And by blaming the quiescence of the Congolese people on their inherent character, Wrong greatly underplays the extremely oppressive nature of Mobutu's regime, which tolerated little dissent. This is an odd omission from an author who knows the country so well and who refers to "the quiet thud of fear" she always felt during her time in Mobutu's Zaire.

FACT AND FICTION

As suggested by the book's title, Wrong uses Joseph Conrad's *Heart of Darkness* as a theme throughout her work. But she deploys the comparison between Conrad's Congo and Mobutu's in a forced and inconsistent fashion. The literary allusion may be catchy, but it does not help to organize Wrong's arguments. Conrad's book, according to Wrong, is concerned

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with "the monstrous passions at the core of the human soul"; as she writes, Conrad was "more preoccupied with rotten Western values, the white man's inhumanity to the black man, than, as is almost always assumed today, black savagery." Perhaps. But this theme is not well explicated in Wrong's own book, nor is it used to make the point that, given her main argument, one would expect Wrong to emphasize: the negative impact of the Western intervention in Zaire that Wrong excoriates in such detail.

Moreover, it is Mobutu himself whom Wrong depicts as a villain out of Conrad. In her epilogue, Wrong refers to the dictator's "brutal, ruthless and greedy" nature; he possessed, she writes, "the instincts of the neighborhood thug," and lacked "the imagination, the sustained vision required to build a coherent state from Belgium's uncertain inheritance." The book's wonderfully designed jacket proclaims that Mobutu "plundered the country's copper and diamond resources, downing pink champagne in his jungle palace like some modern-day reincarnation of Joseph Conrad's crazed station manager." The closest Wrong ever comes to linking Conrad's criticism of colonialism to Western support for Mobutu is when she concedes that "if Mobutu traced a Kurtz-like trajectory from high ideals to febrile corruption, he did not pursue that itinerary alone, or unaided." Wrong is correct in emphasizing how Mobutu, the cunning Machiavellian prince, managed to acquire considerable outside help. But if she means to suggest that he could never have "traced a Kurtz-like trajectory" without such assistance, she is wrong.

Still, despite these weaknesses, this remains a highly readable and frequently incisive book. Africa's "first world war," now being fought in Congo, may soon end, and the country's new leader, Joseph Kabila—son of the man who toppled Mobutu and was himself assassinated in January—may be able to bring all parties to a sensible resolution of the conflict. Finding any such resolution will be extremely difficult, however. The prospects for Kabila's ability to put these terrible genies back in their box are not promising. But whatever happens, *In the Footsteps of Mr. Kurtz* offers hope that Zaire—and the lessons of its terrible history—will not be forgotten any time soon. By setting down this story, Wrong has helped combat what she calls "the world's amnesia towards Zaire ... a country that no longer exists" and toward "Mobutu's worst human rights violation: the destruction of an economy that quashed a generation's aspirations." By helping to remember the Congo's past, Wrong has contributed to this benighted country's future.

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Response

The Case for Universal Jurisdiction

Kenneth Roth

Behind much of the savagery of modern history lies impunity. Tyrants commit atrocities, including genocide, when they calculate they can get away with them. Too often, dictators use violence and intimidation to shut down any prospect of domestic prosecution. Over the past decade, however, a slowly emerging system of international justice has begun to break this pattern of impunity in national courts.

The United Nations Security Council established international war crimes tribunals for the former Yugoslavia in 1993 and Rwanda in 1994 and is now negotiating the creation of mixed national-international tribunals for Cambodia and Sierra Leone. In 1998, the world's governments gathered in Rome to adopt a treaty for an International Criminal Court (ICC) with potentially global jurisdiction over genocide, war crimes, and crimes against humanity.

With growing frequency, national courts operating under the doctrine of universal jurisdiction are prosecuting despots in their custody for atrocities committed abroad. Impunity may still be the norm in many domestic courts, but international justice is an increasingly viable option, promising a measure of solace to victims and their families and raising the possibility that would-be tyrants will begin to think twice before embarking on a barbarous path.

In "The Pitfalls of Universal Jurisdiction" (July/August 2001), former Secretary of State Henry Kissinger catalogues a list of grievances against the juridical concept that people who commit the most severe human rights crimes can be tried wherever they are found. But his objections are misplaced, and the alternative he proposes is little better than a return to impunity.

Kissinger begins by suggesting that universal jurisdiction is a new idea, at least as applied to heads of state and senior public officials. However, the exercise by U.S. courts of jurisdiction over certain heinous crimes committed overseas is an accepted part of American jurisprudence, reflected in treaties on terrorism and aircraft hijacking dating from 1970. Universal jurisdiction was also the concept that

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allowed Israel to try Adolf Eichmann in Jerusalem in 1961.

Kissinger says that the drafters of the Helsinki Accords—the basic human rights principles adopted by the Conference on Security and Cooperation in Europe in 1975—and the U.N.'s 1948 Universal Declaration of Human Rights never intended to authorize universal jurisdiction. But this argument is irrelevant, because these hortatory declarations are not legally binding treaties of the sort that could grant such powers.

As for the many formal treaties on human rights, Kissinger believes it "unlikely" that their signatories "thought it possible that national judges would use them as a basis for extradition requests regarding alleged crimes committed outside their jurisdictions." To the contrary, the Torture Convention of 1984, ratified by 124 governments including the United States, requires states either to prosecute any suspected torturer found on their territory, regardless of where the torture took place, or to extradite the suspect to a country that will do so. Similarly, the Geneva Conventions of 1949 on the conduct of war, ratified by 189 countries including the United States, require each participating state to "search for" persons who have committed grave breaches of the conventions and to "bring such persons, regardless of nationality, before its own courts." What is new is not the concept of extraterritorial jurisdiction but the willingness of some governments to fulfill this duty against those in high places.

ORDER AND THE COURT

Kissinger's critique of universal jurisdiction has two principal targets: the soon-to-be-formed International Criminal Court and the exercise of universal jurisdiction by national courts. (Strictly speaking, the ICC will use not universal jurisdiction but, rather, a delegation of states' traditional power to try crimes committed on their own territory.) Kissinger claims that the crimes detailed in the ICC treaty are "vague and highly susceptible to politicized application." But the treaty's definition of war crimes closely resembles that found in the Pentagon's own military manuals and is derived from the widely ratified Geneva Conventions and their Additional Protocols adopted in 1977. Similarly, the ICC treaty's definition of genocide is borrowed directly from the Genocide Convention of 1948, which the United States and 131 other governments have ratified and pledged to uphold, including by prosecuting offenders. The definition of crimes against humanity is derived from the Nuremberg Charter, which, as Kissinger acknowledges, proscribes conduct that is "self-evident[ly]" wrong.

Kissinger further asserts that the ICC prosecutor will have "discretion without accountability," going so far as to raise the specter of Independent Counsel Kenneth Starr and to decry "the tyranny of judges." In fact, the prosecutor can be removed for misconduct by a simple majority of the governments that ratify the ICC treaty, and a two-thirds vote can remove a judge. Because joining the court means giving it jurisdiction over crimes committed on the signatory's territory, the vast majority of member states will be democracies, not the abusive governments that self-protectively flock to U.N. human rights bodies, where membership bears no cost.

Kissinger criticizes the "extraordinary attempt of the ICC to assert jurisdiction over Americans even in the absence of

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U.S. accession to the treaty." But the United States itself asserts such jurisdiction over others' citizens when it prosecutes terrorists or drug traffickers, such as Panamanian dictator Manuel Noriega, without the consent of the suspect's government. Moreover, the ICC will assert such power only if an American commits a specified atrocity on the territory of a government that has joined the ICC and has thus delegated its prosecutorial authority to the court.

Kissinger claims that ICC defendants "will not enjoy due process as understood in the United States"—an apparent allusion to the lack of a jury trial in a court that will blend civil and common law traditions. But U.S. courts martial also do not provide trials by jury. Moreover, U.S. civilian courts routinely approve the constitutionality of extradition to countries that lack jury trials, so long as their courts otherwise observe basic due process. The ICC clearly will provide such due process, since its treaty requires adherence to the full complement of international fair-trial standards.

Of course, any court's regard for due process is only as good as the quality and temperament of its judges. The ICC's judges will be chosen by the governments that join the court, most of which, as noted, will be democracies. Even without ratifying the ICC treaty, the U.S. government could help shape a culture of respect for due process by quietly working with the court, as it has done successfully with the international war crimes tribunals for Rwanda and the former Yugoslavia. Regrettably, ICC opponents in Washington are pushing legislation—the misnamed American Servicemembers Protection Act—that would preclude such cooperation.

The experience of the Yugoslav and Rwandan tribunals, of which Kissinger speaks favorably, suggests that international jurists, when forced to decide the fate of a particular criminal suspect, do so with scrupulous regard for fair trial standards. Kissinger's only stated objection to these tribunals concerns the decision of the prosecutor of the tribunal for the former Yugoslavia to pursue a brief inquiry into how NATO conducted its air war against the new Yugoslavia—an inquiry that led her to exonerate NATO.

It should be noted, in addition, that the jurisdiction of the Yugoslav tribunal was set not by the prosecutor but by the U.N. Security Council, with U.S. consent. The council chose to grant jurisdiction without prospective time limit, over serious human rights crimes within the territory of the former Yugoslavia committed by anyone—not just Serbs, Croats, and Bosnian Muslims. In light of that mandate, the prosecutor would have been derelict in her duties not to consider NATO's conduct; according to an extensive field investigation by Human Rights Watch, roughly half of the approximately 500 civilian deaths caused by NATO's bombs could be attributed to NATO's failure, albeit not criminal, to abide by international humanitarian law.

Kissinger claims that the ICC would violate the U.S. Constitution if it asserted jurisdiction over an American. But the court is unlikely to prosecute an American because the Rome treaty deprives the ICC of jurisdiction if, after the court gives required notice of its intention to examine a suspect, the suspect's government conducts its own good-faith investigation and, if appropriate, prosecution. It is the stated policy of the U.S. government

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to investigate and prosecute its own war criminals.

Moreover, the ICC's assertion of jurisdiction over an American for a crime committed abroad poses no greater constitutional problem than the routine practice under status-of-forces agreements of allowing foreign prosecution of American military personnel for crimes committed overseas, such as Japan's arrest in July of a U.S. Air Force sergeant for an alleged rape on Okinawa. An unconstitutional delegation of U.S. judicial power would arguably take place only if the United States ratified the ICC treaty; then an American committed genocide, war crimes, or crimes against humanity on U.S. soil; and then U.S. authorities did not prosecute the offender. Yet that remote possibility would signal a constitutional crisis far graver than one spawned by an ICC prosecution.

NO PLACE TO HIDE

National courts come under Kissinger's fire for selectively applying universal jurisdiction. He characterizes the extradition request by a Spanish judge seeking to try former Chilean President Augusto Pinochet for crimes against Spanish citizens on Chilean soil as singling out a "fashionably reviled man of the right." But Pinochet was sought not, as Kissinger writes, "because he led a coup d'état against an elected leader" who was a favorite of the left. Rather, Pinochet was targeted because security forces under his command murdered and forcibly "disappeared" some 3,000 people and tortured thousands more.

Furthermore, in recent years national courts have exercised universal jurisdiction against a wide range of suspects: Bosnian war criminals, Rwandan *génocidaires*, Argentine torturers, and Chad's former dictator. It has come to the point where the main limit on national courts empowered to exercise universal jurisdiction is the availability of the defendant, not questions of ideology.

Kissinger also cites the Pinochet case to argue that international justice interferes with the choice by democratic governments to forgive rather than prosecute past offenders. In fact, Pinochet's imposition of a self-amnesty at the height of his dictatorship limited Chile's democratic options. Only after 16 months of detention in the United Kingdom diminished his power was Chilean democracy able to begin prosecution. Such imposed impunity is far more common than democratically chosen impunity.

Kissinger would have had a better case had prosecutors sought, for example, to overturn the compromise negotiated by South Africa's Nelson Mandela, widely recognized at the time as the legitimate representative of the victims of apartheid. Mandela agreed to grant abusers immunity from prosecution if they gave detailed testimony about their crimes. In an appropriate exercise of prosecutorial discretion, no prosecutor has challenged this arrangement, and no government would likely countenance such a challenge.

Kissinger legitimately worries that the nations exercising universal jurisdiction could include governments with less-entrenched traditions of due process than the United Kingdom's. But his fear of governments robotically extraditing suspects for sham or counterproductive trials is overblown. Governments regularly deny extradition to courts that are unable to ensure high standards of due process. And foreign ministries, including the U.S.

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State Department, routinely deny extradition requests for reasons of public policy.

If an American faced prosecution by an untrustworthy foreign court, the United States undoubtedly would apply pressure for his or her release. If that failed, however, it might prove useful to offer the prosecuting government the face-saving alternative of transferring the suspect to the ICC, with its extensive procedural protections, including deference to good-faith investigations and prosecutions by a suspect's own government. Unfortunately, the legislation being pushed by ICC opponents in Washington would preclude that option.

Until the ICC treaty is renegotiated to avoid what Kissinger sees as its "shortcomings and dangers," he recommends that the U.N. Security Council determine which cases warrant an international tribunal. That option was rejected during the Rome negotiations on the ICC because it would allow the council's five permanent members, including Russia and China as well as the United States, to exempt their nationals and those of their allies by exercising their vetoes.

As a nation committed to human rights and the rule of law, the United States should be embracing an international system of justice, even if it means that Americans, like everyone else, might sometimes be scrutinized.

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Recent Books on International Relations

The United States

PHILIP ZELIKOW

Road Map for National Security: Imperative for Change. BY THE UNITED STATES COMMISSION ON NATIONAL SECURITY/21ST CENTURY. http://www.nssg.gov/

Chartered by Congress as the most comprehensive national security review in half a century, the Hart-Rudman Commission (named for its chairs, former Senators Warren Rudman and Gary Hart) has issued three reports since 1999. The first report highlighted emerging issues for the next quarter-century, predicting a future much like the present, in which the United States is increasingly threatened by unconventional forms of attack. The second report called for more coherent national strategies to build coalitions and defend both the United States and vital international networks in areas such as energy and communications. This latest and final report focuses on how Washington institutions should adapt. The merits of a few of the report's ideas are already apparent and consequently have been adopted. In other cases, such as organizing homeland defense, the commission has helped consolidate an emerging consensus. Its thoughtful proposals, such as those for the Department of Defense, should aid the ongoing review. The recurrent hope throughout is that someone, somewhere, will animate the leftover institutions of the Cold War's national security state with fresher and more purposeful strategic direction.

Defending America: The Case for Limited National Missile Defense. BY JAMES M. LINDSAY AND MICHAEL E. O'HANLON. Washington: Brookings Institution Press, 2001, 258 pp. $24.95.

The subtitle is an accurate preview: the authors endorse building limited defenses against ballistic missiles. They suggest a two-tier system of theater-based defenses to hit missiles in their boost phase as well as a modest national defense system based in North Dakota. China and Russia, they warn, might feel threatened by a more ambitious plan and therefore need to be reassured. The United States should therefore try to cut a deal, negotiated in the form of an amended Anti-Ballistic Missile Treaty, that will placate these powers, to whom this treaty symbolizes strategic stability. But if Russia and China do not want to go along, Lindsay and O'Hanlon conclude, the United States should do what it must to defend itself. Aside from the tactical form of this approach and the authors' nomenclature

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(references to "national" missile defense are not too helpful when talking to allies), the book's position is not far from the likely outcome of the Bush administration's current review. Even those readers who have made up their minds should find this book a useful compendium of information and analysis on an old topic.

Terrorism and U.S. Foreign Policy. BY PAUL R. PILLAR. Washington: Brookings Institution Press, 2001, 272 pp. $26.95.

A veteran of counterterrorism work at the CIA, Pillar wants less attention paid to glamorous threats such as weapons of mass destruction and more care given to the steady, incremental jobs done each day to track and contain the problems that will never really go away. Pillar thinks a "tough" policy on terrorism is often too simplistic, and he counsels less reliance on force and more attention to international cooperation and diplomatic prevention. He therefore suggests that counterterrorism concerns should emerge from their compartment to become mainstream elements in U.S. foreign policy thinking. But this book is not meant for those looking for advice about U.S. policy toward Iran, Afghanistan, or any other state. The book's strength is its nuanced sense of how Washington's counterterrorism policy actually works, day in and day out.

President Nixon: Alone in the White House. BY RICHARD REEVES. New York: Simon & Schuster, 2001, 704 pp. $28.00.

In his presidential biography of John F. Kennedy, Reeves developed a distinctive narrative style. He picked representative days to show how issues converged in the Oval Office and how the president connected and handled them. In such a vivid frame, work and personal habits became clear. Reeves now applies the same successful approach to Richard Nixon. His research is solid, using some good new sources. Reeves' narrative structure also works well for a president who tried so hard to pull every string from behind his desk. Holding the reader in that office, always seeing the world through the lens of a withdrawn, insecure president, Reeves depicts an atmosphere of constant manipulation and deception. Reeves is neutral in his handling of most of the policy issues. But in the strange world he re-creates, all the successes seem hollow. Only the growing number of perceived enemies seems truly real.

No Peace, No Honor: Nixon, Kissinger, and Betrayal in Vietnam. BY LARRY BERMAN. New York: Free Press, 2001, 352 pp. $27.50.

Berman is not neutral about Nixon's policies. On the transcendent issue of Vietnam, Berman finds there was no attempted "peace with honor" for Congress to betray by refusing to aid South Vietnam. Even those scholars who say that Richard Nixon and Henry Kissinger just wanted a "decent interval" between withdrawal and South Vietnamese collapse are being too kind, Berman argues. A respected historian using newly available Vietnamese and American sources, Berman writes that Nixon and Kissinger never expected peace. In fact, they were prepared to violate the accords they negotiated, and they planned for an indefinite limited war and American military commitment in Vietnam. The peace accords would be the excuse to persuade others to support such a policy. But Berman's evidence does not sustain

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such a neat indictment. Instead, this grim story seems more a portrait of policymakers who kept hoping for peace with honor but kept settling for something less—ever struggling to rationalize away the gap between the image of themselves as powerful statesmen and the real mastery of events by Moscow and Hanoi. The communist leaders knew just who was manipulating whom.

Chances of a Lifetime: A Memoir. BY WARREN CHRISTOPHER. New York: Scribner's, 2001, 320 pp. $26.00.

Christopher had a long career before he became Bill Clinton's first secretary of state. This is a book about some of his personal moments and perspectives on those decades of good service, which included the number-two jobs at the Justice and State Departments. The author comes across as steady, careful, and public-spirited. In the second half of the book, Christopher describes his service as secretary of state. But he passes over the early crises in Somalia and Haiti without comment, includes little or no discussion of North Korea and Iraq, and picks up the story of the Balkans only after the dramatic massacres of July 1995. Aside from his account of NATO enlargement, policy toward Russia is also breezed over. Although many pages describe what it is like to travel, attend White House meetings, and visit with foreign leaders, not a single paragraph steps back to describe the priorities, strategies, or objectives that Christopher sought to pursue for the United States in the world. He may feel he has already covered this ground in an earlier book that compiled his major speeches.

Political and Legal

G. JOHN IKENBERRY

Revolutions in Sovereignty: How Ideas Shaped Modern International Relations. BY DANIEL PHILPOTT. Princeton: Princeton University Press, 2001, 352 pp. $59.50 (paper, $19.95).

In a sweeping account, Philpott argues that transformations in ideas about justice and political authority have given shape to struggles over state sovereignty at such critical historical turning points as the Westphalian peace settlement of 1648 and the colonial independence movement of the 1950s and 1960s. These revolutions outwardly reflected the dynamics of power politics in which empires, nations, capitalists, and colonies struggled to establish their dominance. But the norms of sovereignty did more than simply accommodate changing material structures of class, technology, and the balance of power. They also reflected what happened behind the scenes, as thinkers and activists advanced ideas of justice that eroded the legitimacy of existing principles. In turn, this "crisis of pluralism" opened the way for revolutionary change. Thus the enshrinement of state sovereignty at Westphalia would not have been possible without the changing beliefs about political and religious authority among the Swedish Lutherans and Dutch Calvinists who fought against the Roman Catholic Church and the Holy Roman Empire. Likewise, the colonial-independence revolution stemmed from the ideas of colonial nationalism purveyed by

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developing-world intellectuals and European liberals. This convincing portrait shows how power and ideas together shape international relations.

Problematic Sovereignty: Contested Rules and Political Possibilities. EDITED BY STEPHEN D. KRASNER. New York: Columbia University Press, 2001, 502 pp. $49.50 (paper, $22.50).

These essays focus on problematic cases of modern sovereignty—such as Taiwan, Bosnia, and Palestine—in which the international rules of sovereignty are difficult to apply. In addressing how these rules affect stable arrangements, Krasner and his colleagues offer mixed answers. In the aftermath of the Soviet Union's collapse, for example, notions of sovereignty helpfully guided that region's reorganization. But in other cases, political settlements require the artful abridgement of classical norms. Shibley Telhami argues that a future Palestinian state may need to give up some aspects of sovereignty to gain international recognition. In an essay on Tibet, Michel Oksenberg argues that it was easier to accommodate Sino-Tibetan relations within the old Chinese tributary state system than within prevailing Western notions of legal sovereignty. Another piece points out that Taiwan does not have sovereign legal recognition even though it has acquired the functional capacities of an independent state. The book nicely demonstrates that norms of sovereignty are prized and contested but also surprisingly malleable. Hence creative solutions to disputes over state sovereignty are possible—if the parties are willing.

A World Made New: Eleanor Roosevelt and the Universal Declaration of Human Rights. BY MARY ANN GLENDON. New York: Random House, 2001, 333 pp. $25.95.

An inspiring history of how the drafting of the Universal Declaration of Human Rights launched the modern human rights movement. The story centers on Eleanor Roosevelt, who led a small group of diplomats and legal experts in hammering out the world's first international bill of rights. Inside the U.N. Human Rights Commission, Roosevelt and her colleagues struggled with philosophical disputes, personal quirks, and national rivalries. Outside, the world also complicated matters as the major powers squabbled. Meanwhile, the Allied leaders were largely unconcerned with the commission and focused instead on ways to prevent war through territorial guarantees and collective security. The declaration got its necessary push from religious and peace groups, legal activists, and political figures from smaller countries, all convinced that the disregard for freedom and social justice had caused the barbarity of World War II. Finding a universal voice for these ideas—articulated in a way that could not be dismissed as simply "Western"—was perhaps the commission's most important achievement. Few books reveal so evocatively the spirit of that time.

Diplomacy of Conscience: Amnesty International and Changing Human Rights Norms. BY ANN MARIE CLARK. Princeton: Princeton University Press, 2001, 196 pp. $39.50 (paper, $16.95).

The Universal Declaration of Human Rights gave form to the human rights movement, but its practical achievements

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came much later. Only in the last 30 years has an international human rights regime emerged, encompassing norms and principles of government conduct backed by treaties, commissions, monitoring groups, and the United Nations. Clark provides an engaging account of Amnesty International's pioneering role in the 1960s, bringing public attention to torture, disappearances, and political killings. The story then reveals the roots of modern transnational public-interest activism and its evolving strategies, including research and monitoring activity, pronouncements of legal opinion, celebrity appearances, and letter-writing campaigns. Clark argues that Amnesty International's effectiveness has several sources: its reliance on internationally endorsed principles, its political independence and expert-based impartiality, and its credible fact-finding. The book makes clear that the creation of human rights norms was facilitated not just by exposing abuses but by quietly promoting (with the United Nations) new bodies of law and slowly accumulating international standards of conduct.

Wilson's Ghost: Reducing the Risk of Conflict, Killing, and Catastrophe in the 21st Century. BY ROBERT S. MCNAMARA AND JAMES G. BLIGHT. New York: PublicAffairs, 2001, 240 pp. $25.00.

In this passionate call for a new world order, McNamara and Blight write that the twentieth century ended without a solution to the wars and communal violence that made it the bloodiest century in history. Inspired by Woodrow Wilson's idealism and vision of collective security—but also sensitive to his missteps—the authors propose a controversial agenda of nuclear disarmament, multilateral security cooperation, and integration of non-Western great powers into a stable and morally legitimate order. In their view, the return to realpolitik diplomacy is dangerous and incompatible with a tightly wired global economy. China and Russia must be integrated with the Western powers as fully as Germany and France were reconciled and bound together after 1945. In confronting ethnic violence and failed states, the United States should demonstrate "realistic empathy," foreswear unilateral intervention, rely on collective leadership of alliance partners, and support a United Nations capable of deploying its own volunteer police force. Rather than build a missile defense, Washington should gradually phase out nuclear weapons. It is surprising that the authors do not explore how the global democratic revolution has altered geopolitics and the opportunities for new security thinking. But their book is sure to provoke debate.

Taking Trade to the Streets: The Lost History of Public Efforts to Shape Globalization. BY SUSAN ARIEL AARONSON. Ann Arbor: University of Michigan Press, 2001, 256 pp. $28.95.

The 1999 antiglobalization demonstrations in Seattle and others since seem to presage a new era of rising discontent. Not quite so, argues Aaronson. In the United States and around the industrialized world, individuals and nongovernmental groups have long attempted to shape foreign economic relationships and champion regulations to protect social values. She traces the actions of American trade-agreement critics to focus on the ratification battles over the North American Free Trade Agreement and the Tokyo and Uruguay rounds of multilateral trade pacts. Aaronson

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maintains that today's trade protests have their roots in the 1970s, when governments first successfully reduced tariffs to historic lows and then turned to address nontariff barriers such as health and safety regulations. Today's trade critics are not primarily traditional trade protectionists but activists who see such trade agreements as threats to social and environmental regulation. What is new in Seattle-era trade politics, however, is the global movement against greater deregulation. With a historical angle, Aaronson helps deepen the current debate.

Economic, Social, and Environmental

RICHARD N. COOPER

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. BY WILLIAM EASTERLY. Cambridge: MIT Press, 2001, 333 pp. $29.95.

A highly readable and iconoclastic treatment of the determinants of economic growth—a topic that interests the author (an official at the World Bank) primarily because growth alleviates poverty. The book draws heavily on today's fashionable cross-country statistical research, much of it done or sponsored by the World Bank. Yet it offers a nontechnical review of how views on growth have affected the policies of foreign-aid agencies and international financial institutions. Easterly finds much of the conventional wisdom to be wrong, or at least not supported by statistical evidence. Presumptions that foreign aid increases investment, that high investment ratios lead to higher growth, or that education, population control, and debt relief will stimulate growth all lack empirical support, he charges. He then attempts to explain why growth has been so disparate across countries, and what might be done about these disparities. Although much depends on luck, the key lesson for economic performance is that people respond to the incentives they face. If these incentives are conducive to growth-inducing behavior, growth will occur, bad luck aside. But for a variety of reasons, most poor countries have badly misdirected incentives—sometimes with the implicit support of aid agencies.

The Little Ice Age: The Prelude to Global Warming, 1300–1850. BY BRIAN FAGAN. New York: Basic Books, 2001, 246 pp. $26.00.

Current research on global climate change, drawn from tree rings and Greenland ice cores, provides much detailed information on weather and climate history. This new information can be correlated with historical accounts of major weather events and their influence on human conditions. This book exploits the new knowledge and provides an engaging history of western Europe, from the medieval warm period (900–1300) through the "little ice age" (1300–1850), when Europe became colder, wetter, and stormier. For people living near subsistence levels, as most Europeans did before 1800, abrupt changes in weather can mean the difference between prosperity and pauperhood—or even between life and death—especially if these changes last more than one season. A fascinating account of events both obscure and well known, including the French Revolution and the Irish potato famine, as seen through the lens of weather and its effect on harvests.

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The Market System: What It Is, How It Works, and What to Make of It. BY CHARLES E. LINDBLOM. New Haven: Yale University Press, 2001, 290 pp. $26.00.

Except for anachronistic states such as Cuba and North Korea, communism is dead, along with its commitment to public ownership and central planning. Socialist parties everywhere have abandoned notions of command economies and the nationalization of key industries as main political objectives. Market economics has won the great ideological battle of the past half-century. But what exactly is the "market system?" Yale economist Lindblom takes his readers back to basics and provides a reasoned, accessible discourse on what a market system is, what it can plausibly do, and what its limitations are. Both praise and criticism of the market system may be misplaced, he argues, because their real targets may be technology, urbanization, or industrialization. The author sees a market system as a fundamental coordinating mechanism that adjusts the desires of households, firms, and governments. He sees no discernable alternative in modern, complex societies. But he does believe there is ample room for tweaking the market system along the lines desired by each society.

Defining Global Justice: The History of U.S. International Labor Standards Policy. BY EDWARD C. LORENZ. Notre Dame: University of Notre Dame Press, 2001, 360 pp. $54.95 (paper, $27.95).

This useful review of American attitudes toward international labor standards starts with World War I and the creation of the International Labor Organization (ILO) in 1919. It follows with the U.S. accession to the ILO in 1934, the important 1944 Philadelphia Declaration on labor rights, the temporary U.S. withdrawal from the ILO in 1977, and finally the international reaffirmation and extension of Fundamental Principles and Rights at Work in 1998. Much of the book focuses on U.S. decision-making, emphasizing its incremental nature and its distinctively American openness to diverse civic groups such as labor unions, business groups, churches, and academics. It usefully discusses the movement toward national labor standards within the United States in the 1920s and 1930s, the U.S. failure to ratify many of the ILO conventions, and the divisions within American labor on the ILO. Despite its title, the book nowhere defines "justice," but Lorenz implicitly identifies it with enforceable international labor standards rather than mere declarations of labor rights. In his view, these standards should include, *inter alia,* free labor unions, the abolition of child labor, and a meaningful minimum wage.

The Making of Modern Economics: The Lives and Ideas of the Great Thinkers. BY MARK SKOUSEN. Armonk: M. E. Sharpe, 2001, 487 pp. $74.95 (paper, $29.95).

For those interested in the history of economic ideas, this book is both fascinating and infuriating. It is credulous or disingenuous on supply-side economics, naive on macroeconomics, almost silent on the sources of long-term growth, and prone to judge every economist by whether he favors any kind of government intervention (bad) or none at all (good). Nonetheless, it offers an engaging,

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readable, and even colorful review of the major economists starting with the author's hero, Adam Smith, including entertaining excursions into their personal lives. It also has a clear if occasionally tendentious exposition of basic economic principles and their influence on subsequent economic thought. The book provides unwitting support for the pungent observation of John Maynard Keynes (a thinker the author abhors) that practical men who consider themselves beyond the world of ideas are usually slaves to some defunct economist.

Wheels on Fire: The True Inside Story of the DaimlerChrysler Merger. BY DAVID WALLER. North Pomfret: Trafalgar Square, 2001, 312 pp. $29.95.

An important dimension of globalization is the cross-border merger. Waller, a former correspondent of the *Financial Times,* offers a detailed, well-written, and fascinating account of the 1998 fusion between two of the world's oldest and proudest automobile firms—Daimler-Benz of Germany and Chrysler of the United States. The book is something of a paean to Daimler's chief executive, Jürgen Schrempp, who was the major architect of the deal and now heads the merged firm. Not all the wrinkles have been ironed out. But this book will be of value to anyone interested in the evolution of the automobile industry, mergers of large firms, the shift in Germany toward a shareholder culture, and transborder industrial collaboration. Several German firms have since pursued similar strategies, with such recent examples as large U.S. acquisitions by Deutsche Bank and Bertelsmann.

Military, Scientific, and Technological

ELIOT A. COHEN

National Imagery and Mapping Agency. http://www.nima.mil/

Founded in 1996, NIMA brought together a number of elements in the defense and intelligence establishments—most notably, the Defense Mapping Agency and the National Photographic Interpretation Center, which did pioneering work during the Cold War. Imagery is now largely digital, and the borders between classified and open sources have blurred. This attractive and accessible site provides a vast source of data covering the globe to those who have the right software and modest technical expertise.

Defending the Lion City: The Armed Forces of Singapore. BY TIM HUXLEY. London: Allen & Unwin, 2001, 335 pp. $35.00.

One of the very best in the excellent series The Armed Forces of Asia, this book offers a fascinating look at a little-known but effective military organization. Singaporeans, who usually maintain considerable discretion on security matters, have already snapped up this book. Written by a British scholar, it brings up issues that are almost never discussed—including sensitive questions of war plans with Singapore's neighbors. Drawing on Israeli and other foreign experts and using only their country's limited resources, the Singaporeans have molded a technologically sophisticated and large military that is capable of striking far from the island state. Given the country's absence of

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natural resources and lack of strategic depth, it is a remarkable achievement. The military has not yet been tested in real combat, but few observers doubt its professional ability. A fascinating study of what an intelligent, determined people can do to forge an effective military in unfavorable circumstances.

The First World War. Volume I: To Arms. BY HEW STRACHAN. New York: Oxford University Press, 2001, 1,227 pp. $45.00.

Long the province of political scientists probing the origins of catastrophic conflict, the war of 1914–18 has recently attracted historians who can reach a broader audience. John Keegan's short one-volume account, *The First World War,* is serviceable, but this massive scholarly study will surely stand the test of generations. It supersedes the remarkable history by C.R.M.F. Cruttwell, which held the field for 70 years. Strachan, whose breadth of reading is nothing short of staggering, paints a masterly picture of politics, society, economics, and operations. There are no cranky interpretations, no obsessions with one form of historical narrative to the exclusion of another—merely solid prose and massive learning. This and its succeeding volumes will provide the foundation for future generations' understanding of the war that inaugurated a dark and bloody century.

Field Marshal Lord Alanbrooke: War Diaries, 1939–1945. EDITED BY ALEX DANCHEV AND DANIEL TODMAN. Berkeley: University of California Press, 2001, 815 pp. $40.00.

Alanbrooke, the British imperial chief of staff during World War II, permitted a popular historian to publish excerpts from his wartime diaries in the 1950s. Those two volumes—*The Turn of the Tide* and *Triumph in the West*—were shocking for the time. Winston Churchill came in for some rough treatment, which outraged his admirers. (Shortly after the diaries' publication, Churchill turned his back on Alanbrooke at a party.) But scholars have long known that the unpublished manuscript of the entire diaries was rougher yet. Danchev and Todman have done a service in rendering them into a full-sized book. The extent of the material's novelty may be exaggerated; one should not take Alanbrooke's biliousness at face value. He was a man under extraordinary pressures, and the diary was a way of relieving them. But as a window on World War II and the nature of high command, this is an unequalled book—even if one has less sympathy for this dour soldier than do his admiring editors.

The Technological Arsenal: Emerging Defense Capabilities. EDITED BY WILLIAM C. MARTEL. Washington: Smithsonian Institution Press, 2001, 284 pp. $29.95.

This very useful and accessible volume covers three areas: directed energy weapons, military targeting (a broad category that includes unmanned aerial vehicles), and command and control. The authors are solid, mid-level technological experts, many of them Air Force colonels. (The latter is not entirely surprising, since the editor was formerly the director of the Center for Strategy and Technology at the Air War College.) The book reveals a slight bias toward technological optimism, but most interesting is the discussion of how information technology may change traditional concepts of command. The authors' deeply felt anxiety about civilian

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"meddling" shows that advanced technology still has not changed traditional military attitudes toward the allocation of responsibility for the conduct of war.

Body of Secrets: Anatomy of the Ultra-Secret National Security Agency. BY JAMES BAMFORD. New York: Doubleday, 2001, 721 pp. $29.95.

This book updates Bamford's 1982 work *The Puzzle Palace,* reflecting his careful cultivation of sources at America's signal-intelligence agency. The National Security Agency has been increasingly opening its doors thanks to a more relaxed attitude toward dated secrets and perhaps the wish for some good publicity. Bamford has benefited from these intentions, but he also deserves credit for assiduous research in materials released under the Freedom of Information Act. The book offers much fascinating material about the signal intelligence game of measure and countermeasure during the Cold War, the use of lie detectors for internal security, and the relationship with friendly intelligence services. But Bamford takes a more paranoid turn when he discusses the attack on the U.S.S. *Liberty* by Israeli aircraft during the 1967 Arab-Israeli war. Relying on tenuous evidence and shrugging off the improbability of such a politically insane decision, Bamford insists that the incident was altogether deliberate. And when he writes of Israel's "abominable human rights record," one has to wonder whether something more than conspiracy-mongering is at work. Ultra-secrecy can breed strange psychological phenomena, even among those who make a living by prying it apart.

Measuring National Power in the Postindustrial Age. BY ASHLEY J. TELLIS, JANICE L. BIALLY, CHRISTOPHER LAYNE, MELISSA MCPHERSON, AND JERRY M. SOLLINGER. Santa Monica: RAND Corporation, 2000, 54 pp. $7.50 (paper).

It was easier in the old days. Scholars could put together statistics on a country's population, its steel and coal output, and the size of its armed forces—and one could then roughly measure its place in the hierarchy of nations. This think-tank monograph represents an interesting way of coming up with more sophisticated measures. Riddled with charts, taxonomies, and diagrams, the book concludes with the perennial call for further research while getting to some useful points. The authors' premise that the postindustrial world requires new ways to assess national power is surely correct; their approach is quantitative enough to include measures for "ideational resources" and "diffusion of innovation." This study is useful but merits some caution: power is so contextual that all-encompassing indices and the hubris they may breed can mislead as much as they inform.

Western Europe

STANLEY HOFFMANN

Hans J. Morgenthau. An Intellectual Biography. BY CHRISTOPH FREI. Baton Rouge: Louisiana State University Press, 2001, 236 pp. $49.95.

This biography should revive interest in one of the great (and misunderstood) theorists of international relations. Frei traces Morgenthau's life from his birth

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into a German-Jewish family to his burst into American fame in the late 1940s. His life was mostly hard and painful for many reasons: German antisemitism, an authoritarian and ungenerous father, a frequently unpleasant academic environment, and a long experience of exile and financial hardship. He survived thanks only to his defiant obstinacy and determination to produce great works. Frei shows how Morgenthau developed his philosophy in the 1920s and 1930s under the influence of Friedrich Nietzsche and other German thinkers. His resulting pessimism and realism about the human appetite for power and evil led to a profound culture shock when he arrived in the United States, with its "naive" political liberalism and optimistic faith in science. But Morgenthau's philosophy also had another, more neglected aspect: his attention to the moral obligations that he believed should guide politics. For Morgenthau, the reconciliation between realism without illusion and idealism aimed at the preservation of life and freedom was the task of statecraft. The wonderful book's only (but major) flaw is its lack of an index—both surprising and disappointing coming from such a fine university press.

Rethinking the Holocaust. BY YEHUDA BAUER. New Haven: Yale University Press, 2001, 335 pp. $29.95.

An ambitious attempt to answer some of the most important questions raised by the Holocaust. For Bauer, the Holocaust was neither inhuman nor unfathomable but nonetheless was pure evil. Its uniqueness lay in its ideological motivation, whereas other genocides had "pragmatic considerations" as their causes. He points to the nineteenth-century spread of antisemitism among Germany's intellectual classes for the origins of the Holocaust, but he primarily blames an "elite of the Nazi Party" with murderous antisemitic inclinations. Although this elite came to power for reasons unrelated to its genocidal program, it could carry out its plans once it drew the intellectual stratum to its side. Bauer reviews other Holocaust theories—including those of Daniel Goldhagen (whose approach he mostly rejects) and Saul Friedländer (to whom he is closer)—and examines such issues as Jewish resistance and the general absence of rescue attempts. He argues that information about the Holocaust did exist and kept snowballing during the war; the problem was that it was not given credence. On Israel's creation, Bauer concludes that the United Kingdom's refusal to let 100,000 Holocaust survivors into Palestine was the deciding factor in swinging U.S. policy to support the Jewish state, even though "there were almost not enough Jews left to fight for a state." Whether one agrees with all his points, this is a thoughtful and sensible book.

The Holocaust on Trial. BY D. D. GUTTENPLAN. New York: W. W. Norton, 2001, 224 pp. $24.95.

An account of the London trial of a libel suit filed against an American author, Deborah Lipstadt, by the British historian David Irving. She had called him "one of the most dangerous spokespersons for Holocaust denial" after he had argued that Hitler was not personally responsible for the genocide, and that nobody had been gassed at Auschwitz. Under British law, the burden of proof in libel cases lies with the defendant rather than the plaintiff. Hence Lipstadt was forced effectively to

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prove the "reality of the Holocaust." Here Guttenplan has done a lively job describing the arguments and the principal personalities involved in the case. It makes for fascinating reading—and so does the judge's verdict in favor of Lipstadt, which was crushing for Irving. Guttenplan also asks questions about the knowledge of the past, the proper response to hate speech, the importance of the Holocaust for Jewish identity, and how history should be written. Unfortunately he is not very good at answering them, and his brief sketches of Holocaust literature are sometimes fuzzy and superficial. But he is still right in regretting the exclusion of witnesses' testimonies from the trial. Not only are documents too cold and gray, they are often as unreliable as the memories of perpetrators and victims.

France, the United States, and the Algerian War. BY IRWIN M. WALL. Berkeley: University of California Press, 2001, 335 pp. $39.95.

There are books in which what is good is not original, and what is original is not good. Wall's book is a prime example. It first covers the Algerian war from its outbreak in 1954 to the collapse of France's Fourth Republic in 1959, touching on such crises as Suez in 1956 and the controversial bombing of Sakiet in 1958. Here Wall is serious and convincing but adds little new. The chapters that concern Charles de Gaulle's presidency from 1959 onward, however, are weaker. Wall maintains that de Gaulle sought to keep Algeria French to make it the linchpin of a French-dominated "Eurafrique" and propel France to world-power status. This grand hypothesis is original but simply not valid. De Gaulle knew perfectly well that Algeria would end up independent. He had to move incrementally, however, because of political resistance among the army, French settlers in Algeria, and conservatives in France—factors that Wall overlooks. Wall wildly exaggerates the importance of Algeria and the United States in de Gaulle's global diplomacy, incorrectly arguing *inter alia* that Algeria was a major factor in de Gaulle's exit from NATO and that he had to accept Algerian self-determination because he had failed to enlist U.S. support. Wall's revisionism is ambitious, but such "orthodox" scholars as Frédéric Bozo and Maurice Vaïsse are far closer to reality.

Ornamentalism: How the British Saw Their Empire. BY DAVID CANNADINE. New York: Oxford University Press, 2001, 244 pp. $25.00.

This delightful and instructive book argues that historians have failed to treat adequately the interrelationship between the United Kingdom and its empire. Although many scholars have dealt with race, Cannadine argues, they have neglected an even more important factor: class. To him, the empire was about reflecting and reinforcing British social heirarchies, underpinned by "a seamless web of layered gradations ... sanctioned by tradition and religion." In India, for example, this precapitalist class system produced a "layered, Burkian, agrarian image of Indian society" that served as a model for later colonies. Public pageants centered on the British monarchy also played an essential role. Of course, this hierarchical image masked a far more complex reality, and Cannadine explores with subtlety this gap and its sometimes tragic consequences. He also shows how the empire's death at

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the hands of nationalism and "the ideology of equality" meant rejecting British social order and turning to the American model. As for today's Commonwealth, Cannadine concludes, it is no longer about power—only sentiment.

Transatlantic Governance in the Global Economy. BY MARK A. POLLACK AND GREGORY C. SCHAFFER. Lanham: Rowman & Littlefield, 2001, 354 pp. $75.00 (paper, $29.95).

Governance in the global economy is a topic of enormous importance. Despite the triumph of free trade, many actors still try to protect important sectors of society from the potentially destructive effects of unfettered free markets, and rules remain indispensable in settling disputes among states over trade, investments, and copyrights. This book is particularly significant because of its conceptual clarity and broad scope. Focusing on the transatlantic area as the engine of the world economy, the editors assess three different conceptual models offered by scholars: the classic state-centered approach, the transgovernmental approach, and the transnational system of private actors in an emerging global society. After a series of excellent case studies on trade and competition policies, food safety, business and labor dialogues, and civil-society initiatives, the editors conclude that "the U.S. executive and the European Commission have been and remain the dominant actors in transatlantic governance." Among all these networks, business remains the most successful. At a time when many essay collections are loosely shaped, unoriginal, or jargon-ridden, this one is a model of research and analysis.

Western Hemisphere

KENNETH MAXWELL

Brazil's Second Chance: En Route Toward the First World. BY LINCOLN GORDON. Washington: Brookings Institution Press, 2001, 344 pp. $28.95.

Will Brazil ever realize its great potential, or will it rack up another lost decade like the 1980s? Gordon is uniquely qualified to ask this question. As a U.S. ambassador to Brazil, he witnessed the 1964 military coup and the subsequent hardening of military rule that began one of Latin America's longest dictatorships. Aside from a self-interested attempt to defend his own role during the 1964 takeover, Gordon offers one of the best accounts of Brazil's trajectory since World War II. He reminds the reader that only two civilian presidents since 1950 have completed their terms in elected office: Juscelino Kubitschek (1956–61) and the current president, Fernando Henrique Cardoso, who will serve until 2002 (his first term ended in 1998). Yet these two periods did more than anything else to help tap Brazil's potential. Gordon pulls no punches when it comes to sharp analysis, and he is highly critical of Brazil's fragmented party system, its clientelistic congress, and the influence of state political machines. In fact, he warns, the gains made under Cardoso may not be preserved after 2002. He puts the odds at 50-50.

Washington Contentious: Economic Policies for Social Equity in Latin America. BY NANCY BIRDSALL AND AUGUSTO DE

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LA TORRE. Washington: Carnegie Endowment for International Peace Press, 2001, 84 pp. Free of charge.

The 1990s saw a remarkable convergence of views on macroeconomic policy and development. At the same time, most Latin American countries were emerging from years of dictatorship, staggering debt, chronic inflation, and slow growth. That experience prompted finance ministers to pursue a mix of policy prescriptions dubbed the "Washington consensus"—trade and investment liberalization, state-sector privatization, and tight fiscal and monetary adjustments. But results have disappointed. Unemployment has risen, and more than a third of Latin America's population continues to live in poverty. Now the emergence of civil society and greater political representation make it inevitable that voters will become impatient with sacrifice unless living conditions improve. This report proposes policies to reduce poverty without sacrificing growth, including an income floor for workers and middle-class households during slumps, greater public spending on preschools, anti–tax evasion efforts, better worker protection, rural land reform, and improvements in public health. The authors do not believe this task will be easy, but even they may underestimate the problems ahead. Unless Latin America's governments produce results soon, new populist leaders could emerge and reject the consensual and forward-looking measures set out so elegantly here.

The Deadlock of Democracy in Brazil. BY BARRY AMES. Ann Arbor: University of Michigan Press, 2001, 392 pp. $59.50.

In this detailed and sophisticated book, Ames locates Brazil's problems squarely in its democratic procedures. Brazil's institutions create an excess of obstruction at all levels, he argues, making reform exceedingly difficult. This inability to craft reforming coalitions is due not only to the many political parties needed for a legislative majority but to the way the federal system works. For example, Brazil's "open list" system of proportional representation can be extremely democratic, but it weakens party control and cohesion. This weakness enhances the power of local bosses, especially at the municipal level, and fuels pork-barrel payoffs and corruption. Ames also takes President Cardoso to task for expending an enormous amount of political capital in 1998 to change the constitution and run for a second term instead of trying to advance his reform agenda. Lacking in this otherwise persuasive analysis is attention to the real power behind the state's institutional arrangements. Ames laments that Brazil's institutions hinder innovation and protect the status quo—but that is, after all, their purpose. They work very well for those who control them.

Picturing Tropical Nature. BY NANCY LEYS STEPAN. Ithaca: Cornell University Press, 2001, 283 pp. $35.00.

A fascinating examination of how the tropics have come to be represented since the eighteenth century, drawing mostly on a marvelous array of materials from Brazil. Stepan, a historian of science, dissects the exotic depictions of tropical nature that Europeans and North Americans traditionally favored. By examining select episodes and visual images, she traces how tropical places, peoples, and diseases were imagined and treated. She also explains how so many naturalists and artists became

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interested in the tropics in the nineteenth century, and how the cult of natural history and the demand for exotic travel books affected the visualization of tropical nature. She then examines how Westerners interpreted the racial composition of tropical people, especially the mixed-race population of Brazil. Finally, she provides a guide to the definition of tropical medicine, including the strange story of a Brazilian pathology called Chagas disease, which afflicts millions of Latin Americans. Almost every aspect of that ailment and its discovery in 1909 was later challenged and reinterpreted. Some of the images she brings to light are truly gruesome, but she uses them well to demonstrate how the tropics became "a place of peculiarity"—and how indelible many of these perceptions remain.

Looking for History: Dispatches from Latin America. BY ALMA GUILLERMOPRIETO. New York: Pantheon, 2001, 320 pp. $25.00.

This sparkling collection of essays, written for *The New Yorker* and *The New York Review of Books,* deals principally with Cuba, Colombia, and Mexico. Guillermoprieto is well recognized for her evocative, intimate style and her sympathetic but critical insights into Latin American affairs. These skills are all on display again here. She writes how she revisited Cuba in 1998 and was shocked to discover, behind a great cloud of wishful thinking, the fact that "the emperor dressed in rags." She also describes how Colombia's role as a primary supplier of drugs to the United States has turned it into the staging area for Washington's war against the clandestine armies of guerrillas and drug traders. And in Mexico she chronicles the demise of the once powerful regime that ran the country with an iron hand for 71 years. She looks at President Vicente Fox with some bemusement and considerable surprise, calling him the "least típico" Mexican president ever chosen. (His grandfather was American-Irish, his mother Basque.) Readers should look forward to Guillermoprieto's future accounts of the Fox administration. On the basis of this splendid and insightful work, she is clearly a writer at the top of her form.

Here: A Biography of the New American Continent. BY ANTHONY DEPALMA. New York: PublicAffairs, 2001, 384 pp. $26.00.

The American public has traditionally shown scant interest in either Mexico or Canada, and newspaper editors have had little inclination to inform them. But DePalma was fortunate to arrive in each country at a fascinating moment in its history, and his editors at *The New York Times* gave his reports the exposure they deserved. He set foot in Mexico in 1993 in the wake of the assassination of the cardinal of Guadalajara, followed by the equally shocking murder of the presidential candidate of the governing party (and presumptive next president of Mexico). There he tracked the beginnings of the North American Free Trade Agreement, the Chiapas rebellion, the peso crisis, and the dramatic collapse of the reputation of former president Carlos Salinas. In Canada, he explored the nation's ambivalent relationship with its southern neighbor, its own struggle with the strong separatist sentiment in French-speaking Québec, and its emergence as an independent voice on broader western hemisphere affairs.

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At times, DePalma gives too much weight to parallels between Mexican history (with its complex, pre-Columbian roots) and the immigrant background of his own family in the United States. But he skillfully weaves his interviews of leading figures with instructive pieces of each country's history and personal anecdotes to explain past misunderstandings and future challenges. Both a biography and a story of the emerging new North America, this book depicts three intertwined nations sharing much more than borders.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Casino Moscow: A Tale of Greed and Adventure on Capitalism's Wildest Frontier. BY MATTHEW BRZEZINSKI. New York: Free Press, 2001, 320 pp. $25.00.

Were Calvin Trillin or Philip Roth to take on the gaudy, seamy, bumptious, and often violent side of Russia's awkward tryst with capitalism, the result could not be funnier or the writing more skilled. Brzezinski, the nephew of former U.S. National Security Adviser Zbigniew Brzezinski, was a young journalist reporting from Moscow for *The Wall Street Journal* in 1997–98. With the insouciance of a self-admitted naïf, he wandered down alleys, into offices, backrooms, and parties where excesses were on extreme display. The book is a camera, not a treatise. It records the attitudes and deeds of a motley cast: 29-year-old bankers; the wealthy future deputy prime minister of Ukraine, Yulia Timoshenko; men in black leather and gold chains; the gray-suited erstwhile Soviet managers *cum* successful looters. It does not try to explain where they came from or how they figured in the broader process of change. It is a shake-your-head, laugh-out-loud book, but one with a good deal to say.

Chienne de Guerre: A Woman Reporter Behind the Lines of the War in Chechnya. BY ANNE NIVAT. New York: PublicAffairs, 2001, 260 pp. $25.00.

How much more do readers need to know about Russia's war in Chechnya? The unending suffering of distant innocents, the gutted cities and towns, the swollen refugee camps, and the daily outcroppings of terror and revenge all make it regularly into Western newspapers. But there is more, and Nivat—a young French journalist who is fluent in Russian and was baptized in the first Chechen war—provides it. As the conflict was beginning in fall 1999, she slipped into the war zone, clad herself as a Chechen woman, and for the next six months moved among the protagonists and those caught between. From her spare, soft-voiced account, the sounds and sensations of war take shape and the faceless acquire voices. The Chechen warriors speak, as do the Islamic extremists (they are not one and the same). So too do the scruffy, scavenging, adolescent Russian soldiers. Saddest are the laments of the old, the mothers, the limbless, the homeless, and the lost, nearly all of whom simply want the bloodshed to end.

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The Challenge of Revolution: Contemporary Russia in Historical Perspective. BY VLADIMIR MAU AND IRINA STARODUBROVSKAYA. New York: Oxford University Press, 2001, 369 pp. $80.00.

Rarely does a book so mirror its subject. The subject is revolution—namely, what theories of revolution say about Russian events since 1985 and what these events suggest about those theories. But the book itself is an intellectual revolution. It represents a complete break with the way young Soviet intellectuals thought about such topics 20 years ago and a complete reconciliation with the way young Western intellectuals might approach the subject today. This book would enhance the syllabus of any university course on revolutions anywhere. Economic stages play a central role in the tension-filled discontinuities that produce revolution, including Russia's several versions. And classical notions of a revolution's stages serve as the framework for understanding how great revolutions, including Russia's most recent one, unfold. Although the argument is less certain about predicting the outcome, it does a great service by putting the last 15 years of Russian history in grand and sophisticated perspective.

The Grooves of Change: Eastern Europe at the Turn of the Millennium. BY J. F. BROWN. Durham: Duke University Press, 2001, 276 pp. $54.95 (paper $18.95).

Brown says this is the last book he will write on eastern Europe. If so, it is a fitting valedictory. In sweeping, effortless fashion, he locates the revolutions of 1989 in the stream of the twentieth-century forces that buffeted this region. Brown means to explain events rather than immerse himself in the excitement of change or wax poetic. He does this not through elaborate social science theories or broad philosophical speculations but through a thick weave of lively and provocative judgments. The writing is relaxed and the analysis straightforward. From the missteps of the interwar period to NATO expansion, from the economic disabilities of communism to the hazards of the postcommunist transition, Brown offers bluff, unapologetic opinions. He melds together large area-wide themes with succinct country-by-country portraits. His is a broad, packed primer on an area that, as Brown sees it, may at last be transcending the traits and experiences that long defined it.

Ukraine and Russia: The Post-Soviet Transition. BY ROMAN SOLCHANYK. Lanham: Rowman & Littlefield, 2001, 237 pp. $74.00 ($29.95 paper).

Among the several books on Russian-Ukrainian relations, Solchanyk's stands out for its detailed reconstruction of unfolding events, particularly those involving Crimea. When it comes to explaining their drift—particularly the question of why the relationship has been so prickly—the author settles for the commonplace view that the problem lies in the Russians' deep psychological inability to accept the loss of their Ukrainian rib. Although correct, the author runs away from a rigorous examination of the Ukrainian side of the equation by leaning so hard on this explanation. As a result, he oversimplifies the bilateral interaction, understating both the relationship's complexity and the tension between the positive and negative issues at stake. But Solchanyk enriches the picture by including other dimensions

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of Ukrainian policy, including the preferred but elusive option of turning toward the West and the burden imposed by Ukraine's domestic failings.

Middle East

L. CARL BROWN

The War for Palestine: Rewriting the History of 1948. EDITED BY EUGENE L. ROGAN AND AVI SHLAIM. New York: Cambridge University Press, 2001, 234 pp. $54.95 (paper, $19.95).

A first-rate collection of studies on the 1948 Arab-Israeli war. The introduction crisply sets out the issues, and the effect is an integrated work in which the authors talk to one another. Separate essays cover the foreign policy and performance of the states directly involved in the war—Egypt, Iraq, Israel, Jordan, and Syria—as well as stateless participants such as the Palestinians and the often overlooked Druze. (One minor quibble is that the book lacks a chapter on Lebanon.) Benny Morris addresses the thorny issue of responsibility for the massive Palestinian exodus of 1948, and Edward Said writes an afterword that should abash his detractors and impress all others. The volume offers no major surprises but illuminates the disarray of the Palestinian community, the inter-Arab rivalries that loomed larger than the fight against the Jewish state, and Israel's hard-nosed strategy on the ground that was cloaked in its image as a David against an Arab Goliath. The authors have exploited public archives, memoirs, and other newly available sources to produce a richer and more balanced history of "the war for Palestine."

Pariah States and Sanctions in the Middle East: Iraq, Libya, Sudan. BY TIM NIBLOCK. Boulder: Lynne Rienner, 2001, 239 pp. $49.95.

A well-organized, brief account of the U.N. Security Council sanctions initiated in the 1990s against Iraq, Libya, and Sudan. By treating the three cases separately, Niblock brings out interesting differences. Sanctions against Libya, for example, did not block its sale of oil. Sanctions against Sudan did not threaten its economy; those in Iraq did. Niblock's disapproval of the U.S.-driven sanctions policies comes through strongly, and he is especially good at favorably presenting the policies and underlying assumptions of the targeted states that sought to get the sanctions lifted. Readers may feel that he makes the rulers of these states look better than they deserve, but that in no way undercuts his basic argument that sanctions have not achieved their goals. His reform proposals include linking sanctions relief to human-rights advances, using diplomatic rather than economic pressure, and forging a policy geared toward rehabilitation rather than reparations.

Reinventing Khomeini: The Struggle for Reform in Iran. BY DANIEL BRUMBERG. Chicago: University of Chicago Press, 2001, 306 pp. $55.00 (paper, $21.00).

Ever since Max Weber introduced the theory of the charismatic revolutionary leader whose appeal must at some point be "routinized" by new rules, scholars have sought to explain how revolutions wind down. Here Bromberg makes three points regarding Iran. First, Ayatollah Ruhollah Khomeini's political strategy was more nuanced—even at times more contradictory—than scholars often realize.

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Second, all major political contenders in Iran claim to be true to Khomeini's message. Third, their differences have been institutionalized and epitomized in today's awkward cohabitation between President Mohammad Khatami and Khomeini's official successor, Supreme Leader Ayatollah Ali Khameinei. The resulting "dissonant" institutionalization is likely to continue. *Reinventing Khomeini,* awash with the argot of sociological theory and many Iranian names and terms, is not an easy read; a chronology, a glossary, and short biographical sketches would have helped. Yet it provides a useful road map to Iran's ongoing "routinization of the charisma."

Post-Revolutionary Politics in Iran: Religion, Society, and Power. BY DAVID MENASHRI. Portland: Frank Cass, 2001, 356 pp. $62.50 (paper, $26.50).

Reviewing events in Iran's "second republic" since the death of Khomeini in 1989, Menashri covers Iran's domestic scene, its relations with the United States and the West, regional issues, and Iran's policy toward Israel—"the enemy of Iran and Islam." An epilogue brings domestic and foreign developments up to date. Menashri, who has written many studies on Iran and has contributed to Israel's annual *Middle East Contemporary Survey* since 1978, shows here the product of having followed events in Iran year by year for more than two decades. This is high-quality political reporting that relies largely on a meticulous combing of the Iranian media. Each chapter presents its subject chronologically, with many references to related information in other chapters. There is also a glossary and a descriptive list of the many Iranian newspapers. An informed and impressively dispassionate study of Iran since 1989.

Morocco Since 1830: A History. BY C. R. PENNELL. New York: New York University Press, 2001, 442 pp. $60.00 (paper, $20.00).

This book meets the need for an up-to-date history of modern Morocco in English. The major emphasis is on political history, but it also deftly works in economic and social subjects. Unlike most country studies that stint on the earlier years to concentrate on more recent history, this book gives equal treatment to all periods—the years before France colonized Morocco in 1830, the protectorate years (1912–56), and restored independence thereafter. Pennell, who has written widely on Moroccan history, not only brings his own expertise to bear but draws on many works in Arabic, English, French, and Spanish. He brings out both the constants throughout time, such as the fickle weather that afflicts Moroccan agriculture, and the changes. Pennell neatly sums up those changes by imagining the reactions of two nineteenth-century visitors (a British diplomat and a Mauritanian scholar) returning to today's Morocco.

Asia and Pacific

LUCIAN W. PYE

India Unbound. BY GURCHARAN DAS. New York: Alfred A. Knopf, 2001, 384 pp. $27.50.

Through an autobiographical lens, this book seeks to explain why India's economy stagnated for so long before finally picking up in recent years. As a schoolboy, Das worshipped Prime Minister Jawaharlal Nehru; as a Harvard undergraduate, he learned from top economists that India

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should ignore the market and rely on state planning and import substitution. Finally, as head of Procter & Gamble India, he was harassed by a bureaucratic state that saw profits as sinful, hindered entrepreneurs, and favored poorly run, state-owned industries. By juxtaposing his personal story with India's economic journey, Das avoids abstractions and focuses on the particular individuals who were leading India into trouble with its "mixed economy." This may be the first book to ask why America's leading economists were so wrong in their policy advice for India in the 1950s and 1960s. Das is understandably enthusiastic about India's current economic reforms, but his key argument—that India can quickly become the world leader in the information revolution—seems to stray into fantasy.

The Chinese. BY JASPER BECKER. New York: Free Press, 2000, 480 pp. $27.50.
New Shanghai: The Rocky Rebirth of China's Legendary City. BY PAMELA YATSKO. New York: John Wiley, 2001, 298 pp. $24.95.

The Chinese is a superb book for anyone who wants to be updated on contemporary China. Becker, a journalist who has covered China since 1985, has the unique ability to weave together his personal observations with clear summary analyses of China's many accomplishments and its persisting problems. For good measure, he gracefully adds a great deal of appropriate and informative historical material. He systematically reviews all levels and dimensions of Chinese society, from the poorest peasants to local despots to elite politics. And he fully treats both the factors contributing to the success of economic reforms and the serious problems that remain. His is a reliable and lively guide to understanding a very complex society that has yet to achieve a new state of equilibrium.

Yatsko is also a veteran China reporter, but her work concentrates on the key city of Shanghai. She has a solid base for measuring the achievements of the current reforms: in the 1920s and 1930s, Shanghai was the preeminent cosmopolitan city in Asia—the "Paris of the East"— and a leader in trade and finance. Although the city has scored impressive achievements since the Mao era, it still lags far behind what it was before World War II, especially in cultural and intellectual spheres. (The old Shanghai had a world-class symphony and more newspapers than Bombay and Calcutta combined; in the 1930s, it published more book titles each year than the entire American book industry.) As with Becker, Yatsko finds that behind all the signs of exciting progress, serious problems still need to be overcome before Shanghai and China can realize their full potential.

The Great Hedge of India: The Search for the Living Barrier That Divided a Nation. BY ROY MOXHAM. New York: Carroll & Graf, 2001, 256 pp. $22.00.

Globalization has made theorizing about the significance of borders fashionable. Here is an implausible example of border maintenance that readers should not overlook. In the nineteenth century, eccentric Englishmen in India thought of constructing a 2,500-mile-long impenetrable hedge, requiring up to 14,000 men to maintain, as a way to stop salt smuggling. Moxham first heard of the Great Hedge in an old book purchased at an antique bookstore. His imagination captured, he

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then set off on expeditions to London libraries and multiple trips to India to find the hedge's remnants. He tells with wit and style of his frustrations and disappointments, but in the process he provides a vivid picture of contemporary village life in India. Just when he despairs that the only traces of the Great Hedge are left in the India Office archives and old Royal Geographical Society maps, Moxham meets an old man who leads him to a deserted site. There he can at last see a few hundred yards of thicket, the last remains of the hedge. The fact that such a stupendous enterprise was almost forgotten is a good case of the eccentric being treated as commonplace in Victorian England.

Mao's China and the Cold War. BY CHEN JIAN. Chapel Hill: University of North Carolina Press, 2001, 400 pp. $49.95 (paper $19.95).

Chen has taken some giant steps toward advancing the West's understanding of Mao Zedong's policies during the Cold War. His book is filled with new information from archives and interviews with former Chinese officials. Henry Kissinger and Richard Nixon gave the West the picture of Mao and Zhou Enlai as relaxed and worldly-wise. In fact, Chen argues, Mao was driven by ideology and insatiable ambition as he led the communists to power and sought Stalin's blessing for his leadership. Furthermore, Washington never had a "lost chance" to forge normal relations with the Chinese communists. From the start, Mao was scheming to foment revolution in all of Asia, even as the Soviets were losing interest. Chen also provides new insights into China's role in the Korean War, the French-Indochina conflict, and later the Vietnam War. On all of these issues, Chen concludes, Mao was more activist than Stalin—and continually underestimated by the West. Chen's extensive documentation will boldly challenge the revisionist view of a more pragmatic Mao.

Africa

GAIL M. GERHART

Intervening in Africa: Superpower Peacemaking in a Troubled Continent. BY HERMAN J. COHEN. New York: Palgrave, 2000, 268 pp. $65.00.

As assistant secretary of state for Africa from 1989 to 1993, Cohen was instrumental in guiding U.S. policy through the post–Cold War transition on the continent. This candid practitioner's memoir looks at seven civil wars in which the United States played a role. In Ethiopia, America's most successful intervention, U.S. diplomacy helped end the warfare that accompanied the fall of Mengistu Haile-Mariam's dictatorship. In the other six cases, interventions ranged from moderate success (Mozambique) to costly failure (Sudan, Angola, Liberia, Rwanda, and Somalia). All were shaped by varying mixtures of political and bureaucratic interference, faulty intelligence, naive expectations, and the inability to appreciate that early preventative action costs less than later intervention. Cohen believes that because American diplomacy carries great weight in Africa, it can help create positive conditions—if well applied—for negotiated solutions to conflict and even directly prevent deadly wars. Power, he says, implies a duty to promote peace and stability, but he

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stops short of spelling out the precise nature or limits of this responsibility.

Why Peacekeeping Fails. BY DENNIS JETT. New York: Palgrave, 2000, 245 pp. $49.95 (paper, $19.95).

After a period of contraction in the mid-1990s, U.N. peacekeeping operations (PKOs) have increased in number since 1999, putting pressure on major powers to contribute to new rescue and rehabilitation efforts around the globe. Yet it is not clear that the U.N.'s capability to carry out these operations effectively has increased—particularly in Africa, where the major powers perceive few vital interests and are reluctant to contribute resources. In this updated edition of a 1999 study, a former U.S. ambassador to Mozambique draws lessons for today by taking a hard-nosed look at PKOs in Angola and Mozambique a decade ago. Extrapolating from these cases, Jett contends that PKOs can suffer from both inadequate resources and the U.N.'s organizational culture, which often hinders competent analysis and makes it difficult to appoint effective personnel in politically difficult situations. A pessimistic critique of peacekeeping, past and future.

Brothers at War: Making Sense of the Eritrean-Ethiopian War. BY TEKESTE NEGASH AND KJETIL TRONVOLL. Athens: Ohio University Press, 2001, 190 pp. $42.95 (paper, $18.95).

Between May 1998 and June 2000, Ethiopia and Eritrea fought what was at the time the biggest and bloodiest war in the world. While the Western powers and international news media focused on Kosovo, two of the world's poorest countries spent hundreds of millions of dollars to settle what was ostensibly a minor border dispute. How did this quarrel become so lethal, and why did the outside world do so little? The authors dismiss the view that the conflict was about borders. Instead they link the complex historical, ideological, and economic factors at work to show that the conflict was a civil war between the Tigrinya-speaking peoples who straddle the common border and whose leaders rule both countries. The authors argue that a failure to grasp the war's underlying causes made international mediators ineffectual, while political immaturity handicapped the ruling guerrilla chieftains on both sides. Sixteen documentary appendices add to the value of this case study in failed conflict resolution.

Islam and Politics in Kenya. BY ARYE ODED. Boulder: Lynne Rienner, 2000, 246 pp. $49.95.

One of Israel's best-informed Africanists surveys the background to the antigovernment riots that erupted in the early 1990s among Kenyan Muslims, who make up roughly one-fifth of the country's population. Despite long-standing divisions based on race, leadership rivalries, and doctrinal issues, most Kenyan Muslims share a well-founded conviction that the Christian-dominated government discriminates against them. Economic hardship, the introduction of a multiparty system, the influence of militant Islamic groups outside Kenya, and the emergence of the rabble-rousing Shaikh Khalid Balala in the coastal city of Mombasa all converged between 1992 and 1994 to incite violent demonstrations against the regime of Daniel arap Moi. But Oded believes that if Kenya's government were

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more responsive to Muslim grievances, the country's potential for violent religious extremism would be low, since most Kenyan Muslims are moderate, tolerant, and pragmatic. An expert exploration of the myriad ramifications of the political views and minority status of Kenya's Muslim population.

Land Reform in Zimbabwe: Constraints and Prospects. EDITED BY T.A.S. BOWYER-BOWER AND COLIN STONEMAN. Brookfield: Ashgate, 2000, 220 pp. $69.95.

This highly informative collection is the product of a 1998 London conference, updated to take note of the illegal and violent seizure of white-owned farms starting in early 2000 by the government of Robert Mugabe. The book provides a detailed overview of the historical, legal, political, and economic aspects of land redistribution in Zimbabwe since its independence in 1980. Compelling reasons support phasing out gross colonial inequalities, and there is a positive correlation between land redistribution, economic growth, and poverty alleviation. So why did Mugabe's ruling party allow the country's resettlement program to languish for more than a decade, only to rush it back to the front burner in the late 1990s? The contributors pose a variety of answers to this question. But they broadly agree on the urgent need for an acceptable land-reform strategy that acknowledges the necessity for more transparency in the land-acquisition process, greater institutional capacity to manage agrarian change, and more commitment of government resources to aid newly resettled farmers.

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Letters to the Editor

Michael S. Chase writes about the prospects for reform in China; Seth G. Jones describes the nature of the transatlantic divide; Ralph Hitchens explains computer networks; and others

CHINA'S TRANSFORMATIONS

To the Editor:

I agree with the overall conclusion of George Gilboy and Eric Heginbotham ("China's Coming Transformation," July/August 2001) that it is in the interests of the United States and Asia to promote stability in China. But some of their discussion requires further explanation.

The great engine of growth in China is centered in the south, and particularly in Shanghai. Indeed, southern China has historically served as a region of key economic importance. For example, it was Deng Xiaoping's famous trip to the south in early 1992 that marked the beginning of China's modern drive toward capitalism. Prior to that time, the country had not readily accepted economic reforms. Therefore, when the authors cite Beijing's "reluctance to accept independent civil society" as the reason for the lack of innovation in China, they are not entirely correct. Innovation and civil society are not always related. After all, the former seems to thrive in southern China. Hence, geography is of major importance as well.

The real transformation in China concerns neither the upcoming change in leadership nor economic reforms, as the authors contend, but rather the glaring social problems that China faces. First, severe rural unrest is a real threat to the country's stability. Second, the failure of China's taxation system—mentioned briefly by the authors—is a major issue and one that is not simply confined to a small area. Beijing collects from the people only about 13–15 percent of what is actually owed. To add to the problem, peasants in the countryside are regularly overtaxed. Third, ease of access to education is essential if economic prosperity is to continue in China. The authors do not mention this point. Finally, China's social safety net is full of holes. Approximately 100 million Chinese workers are unemployed or displaced, and most of them come from the northern and western regions of the country, far away from the thriving coastal areas. It is surprising that Gilboy and Heginbotham simply gloss over these great concerns, for it is with these issues—and not simply the matter of civil society—that the next generation of Chinese leaders must contend.

MARK T. FUNG
Assistant Director and Research Fellow of China Studies, the Nixon Center

To the Editor:

George Gilboy and Eric Heginbotham argue that China's leaders can no longer rely on traditional methods to solve their nation's social and political

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problems. The authors, however, do not provide sufficient evidence to support their assertion that the next generation of leaders will be inclined to support political liberalization.

Gilboy and Heginbotham offer three reasons to support their contention that "China's new leaders will likely choose change over retrenchment": there are worrisome signs of growing unrest, lack of political reform may slow economic development, and it is in the interest of some of the rising leaders to advance reforms. The first two are indeed compelling reasons why the next generation of Chinese leaders should choose to pursue political reforms. However, these reasons do not necessarily mean that the leadership will reform. The third reason is a matter of debate. Many of the new leaders, including Vice President Hu Jintao, are in a sense dependent on their elder patrons for their own legitimacy and will therefore be reluctant to enact measures that call into question the wisdom of their predecessors' most fundamental policies.

Furthermore, there is little reason to suspect that key members of the current generation of leaders—who are likely to retain at least some influence in retirement—are contemplating reform. In July 2000, President Jiang Zemin delivered a speech on the 80th anniversary of the founding of the Chinese Communist Party. Although he implied that Chinese leaders are seeking to broaden the party's base by bringing influential new elites into the fold, the speech offered practically nothing in the way of support for broader political reforms.

Finally, even if U.S.-China relations proceed smoothly over the next several years, the prospects for political reform in China will still be, at best, uncertain. Although the authors are correct to point out that containment would be counterproductive, the obstacle most likely to hinder political progress in China is the leadership's fear of social unrest and its distrust of popular political participation. China's leaders are caught in a vicious circle. They shrink from implementing reforms because of their fears of social disorder. The lack of reform then intensifies social and political problems, and party leaders become even more concerned about chaos and disorder.

The authors perceptively note that "the state's ability to control and coerce the populace has withered." They fail, however, to recognize that the regime still maintains considerable capabilities to quash any political organization it views as a potential threat to its monopoly of power. China needs reform, but unfortunately neither its current leaders nor their likely successors appear ready to provide it.

MICHAEL S. CHASE
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TRANSATLANTIC DIVISIONS

To the Editor:

Although Antony Blinken is correct to point out the need for a closer transatlantic relationship in "The False Crisis Over the Atlantic" (May/June 2001), his claim that the strategic divide is more rhetoric than reality is largely wishful thinking. As he recognizes, Europeans have reacted incredulously to the recent U.S. push for a national missile defense and withdrawal from the Kyoto Protocol. Two other examples illustrate the nature of this divide.

First, Blinken understates the long-term impact and the degree of tension

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caused by Europe's desire to create a rapid reaction force. As one German official recently said, "While we believe that NATO will remain important to Germany in the next five to ten years, the future of our foreign and defense policy lies with the European Union, not NATO." U.S. policymakers rightly worry that the creation of a Common Foreign and Security Policy and European Security and Defense Policy will lead to a duplication of resources and an ethos that will be inherently at odds with NATO.

A second example concerns the European arms industry. Consolidation among European defense firms through joint ventures and mergers and acquisitions has taken place mainly within Europe rather than across the Atlantic. The reason for this is obvious: European defense firms view their U.S. counterparts as their primary competitors. Indeed, the creation of the European Aeronautics, Defense, and Space Company—now the third largest defense company in the world—and the recent consolidation of Europe's missile industry clearly indicate that Europe and the United States will remain competitors in the defense realm.

Although these trends certainly do not mean that Europe and the United States will become enemies, they strongly suggest that the close strategic friendship enjoyed during the Cold War has dissipated.

SETH G. JONES
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SPACE CONCERNS

To the Editor:

Michael Krepon provides a faulty rationale for not developing the capability to defend U.S. space assets ("Lost in Space," May/June 2001). His analysis is based on the relative importance of space assets in the past and is not relevant to the strategic use of space today. For example, Krepon notes that during the Cold War, space assets were used for photoreconnaissance and communications. Today, however, space provides a variety of other economic and military uses. Although Krepon outlines the projected commercial explosion in space-technology industries, he fails to mention that the military uses space today not only for support of nuclear warfare but also for navigation, communications, and high-speed, high-volume data transmission. These uses are all essential for humanitarian relief efforts, small-scale operations, and major theater wars. Furthermore, the United States depends on space capability more than any other nation. Space is truly becoming the weak link in the U.S. economic infrastructure and in the military's fighting capability.

STEWART J. KOWALL
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VIRTUAL PROBLEMS

To the Editor:

In his article "Virtual Defense" (May/June 2001), James Adams provides a flawed analysis of the 1997 Department of Defense (DOD) exercise "Eligible Receiver." Particularly problematic is his claim that the participating teams were able to penetrate power grids and, "with a couple of keystrokes," could have paralyzed the power and emergency services in several cities. This is an urban legend propagated by gullible reporters, as Adams should have known. These penetration exercises did not target actual systems but were modeled on DOD computer

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networks set up to emulate "potential domestic national systems." As experts pointed out at the time, accessing the Supervisory Control and Data Acquisition (SCADA) network of a power grid is not the typical sort of hacking that dominates the news. SCADA systems are generally removed from the Internet, permit extremely limited access, and use proprietary operating systems and applications software. One cannot disrupt them simply with tools downloaded from the Internet.

Classified government networks are also much more resistant to intrusion than is commonly supposed. Although, as Adams notes, one DOD classified network was penetrated during Eligible Receiver, it happened only as a result of an intrusion event managed by the exercise controllers—a plausible enough event, to be sure, but artificial nonetheless. This is not to say that SCADA and classified networks are completely secure, but their vulnerability has been greatly overstated. If penetrating and disrupting these networks were easy, it would surely have been done by now.

Adams is not wrong about the vulnerability of unclassified networks connected to the Internet. But there is a limit to the damage that can be done by hackers plucking this "low-hanging fruit." Skilled system administrators employing solid backup processes and using state-of-the-art computer security procedures are generally able to minimize damage. Furthermore, the level of investment in computer-security technology and training is rising. It is true, however, that large organizations have been slow to upgrade operating systems to offset improved ways of gaining access to networks or circumventing firewalls. This inherent conservatism results from the need to accommodate older systems and applications as well as a reluctance to ask users to accept continual changes in their desktop environments.

Increased investment in computer security does diminish the vulnerability of current-generation operation systems. And lessons learned in this process make next-generation operating systems more robust.

RALPH HITCHENS
U.S. Department of Energy

PARLIAMENTARY DEBATE

To the Editor:

Joseph Nye argues against the creation of a global parliamentary assembly and instead proposes several more modest initiatives to remedy the global democratic deficit ("Globalization's Democratic Deficit," July/August 2001). He suggests that a parliamentary body would be unworkable because "in a democratic system, minorities acquiesce to the will of the majority when they feel they are generally full-fledged participants in the larger community" and because "there is little evidence ... that such a strong sense of community exists at the global level today, or that it could soon be created." If Nye means that conditions are not appropriate for a global version of the U.S. Congress, then he is surely correct. But this consideration does not refute an argument in favor of establishing a global advisory assembly— at the initiative of willing states or of civil society. Such an assembly could monitor global institutions, and, like the European Parliament, it might well enhance its reputation and strengthen its authority over time.

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The successful day-to-day functioning of modern democracy depends not as much on the acceptance of policy by factions within the community as on such acceptance by organized interests. For example, those individuals actively supporting environmental groups tend to continue their fundamental allegiance to the parliamentary process despite losses to industry because they are committed to the validity of the system and know that they will have the opportunity to press their case on another day. In fact, if influential interest groups that are directly involved in policymaking at the domestic level can circumvent states and directly interact through the vehicle of a global parliament, support for and adherence to the international system is likely to be strengthened significantly.

Nye suggests that "treating the world as a single global constituency ... would mean that the more than 2 billion Chinese and Indians could usually get their way." Indian and Chinese delegates to a freely elected global assembly seem unlikely to adopt a unified position, and if they did, they would discredit themselves and weaken the assembly. Rather than form a unified bloc, they would more likely reflect the diversity of interests and outlooks within their respective societies. Shifting transnational coalitions would expose the fiction of "national interests" and help mitigate dangerous conflicts by way of parliamentary politics.

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